

**Sonoma County Water Agency**

**Basic Financial Statements**

**Year Ended June 30, 2005**

## Table of Contents

	Page
<b>Independent Auditors' Report</b>	
<b>Management's Discussion and Analysis</b> (Required Supplementary Information)	3
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Assets - Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	26
Statement of Fiduciary Assets and Liabilities - Fiduciary Fund	29
Notes to Basic Financial Statements	30
<b>Required Supplementary Information</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund - Budgetary Basis	63
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Special Revenue Fund - Flood Control - Budgetary Basis	64
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Special Revenue Fund - Warm Springs Dam - Budgetary Basis	65
Notes to Required Supplementary Information	66
<b>Supplementary Information</b>	
Combining Balance Sheet – Special Revenue Funds – Flood Control	67
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Special Revenue Funds – Flood Control	68
Combining Statement of Net Assets – Enterprise Funds – Sanitation Zones	69
Combining Statement of Revenues, Expenses, and Changes in Net Assets - Enterprise Funds - Sanitation Zones	72
Combining Statement of Cash Flows - Enterprise Funds – Sanitation Zones	74
<b>Compliance</b>	
Independent Auditors' Report on Internal Control and Compliance and on Other Matters Over Financial Reporting Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Schedule of Findings and Questioned Costs	78

## Independent Auditors' Report

To the Board of Directors  
Sonoma County Water Agency  
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency**, (the "Water Agency"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2005, which collectively comprise the Water Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the **Water Agency's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency** as of June 30, 2005, and the respective changes in financial position, and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2005, on our consideration of the **Water Agency's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Local partnership. Global solutions.*

3550 Round Barn Blvd., Suite 100, Santa Rosa, CA 95403  
(707) 542-3343 • Fax (707) 527-5608

Offices in Santa Rosa, Petaluma and Napa [www.pbllp.com](http://www.pbllp.com)

**Independent Auditors' Report** (continued)  
Sonoma County Water Agency

The Management's Discussion and Analysis ("MD&A") on pages 3 through 14 and the budgetary comparison information on pages 63 through 66 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Sonoma County Water Agency's** basic financial statements. The accompanying combining financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the **Sonoma County Water Agency**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Asinli & Brinker LLP*

Santa Rosa, California  
September 12, 2005

## **Management's Discussion and Analysis**

Management's Discussion and Analysis

---

Year Ended June 30, 2005

---

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 29) and the accompanying notes to the financial statements (pages 30 - 62).

**Financial Highlights**

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$326,645,583 (net assets). Of this amount, \$29,703,157 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$5,631,916 during the current fiscal year. An increase of \$8,080,321 was related to the governmental activities while a decrease of \$2,448,405 was related to business type activities. The Water Agency recognized a decrease in net assets of \$2,819,830 due primarily to the dissolution of the Graton Sanitation Zone.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$111,321,376, an increase of \$7,644,385 in comparison with the prior year. Approximately 28% of this total amount, \$31,114,198 is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was \$1,794,954 or 5.3% of total general fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

*Government-wide financial statements*

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Water Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**Overview of the Financial Statements** (continued)

*Government-wide financial statements* (continued)

Both the government-wide financial statements distinguish functions of the Water Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Water Agency include general government, flood control, Warm Springs Dam and debt service. The business-type activities of the Water Agency include water transmission, water supply, and sanitation services.

The government-wide financial statements can be found on pages 15 -17 of this report.

*Fund financial statements*

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Water Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds*

*Governmental funds* are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Water Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue funds (Flood Control and Warm Springs Dam), and the debt service fund, all of which are considered to be major funds.

The Water Agency adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18 - 29 of this report.

**Overview of the Financial Statements (continued)**

*Proprietary funds*

The Water Agency maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment and facilities rental activities. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water transmission, water supply, and sanitation services, all of which are considered to be major funds. Information for the internal service fund is also provided in the proprietary fund financial statement. The basic proprietary fund financial statements can be found on pages 21 - 28.

*Fiduciary funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the Water Agency's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 29 of this report.

*Notes to the financial statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 - 62.

*Required Supplementary Information*

Schedules presenting budgetary comparison information for the Water Agency's governmental funds can be found on page 63 - 66.

Combining statements in connection with governmental funds and proprietary funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 67- 76.



## Management's Discussion and Analysis

Year Ended June 30, 2005

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by \$326,645,583 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (52%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## Sonoma County Water Agency's Net Assets

	Governmental		Business-Type		Total	
	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05
Current and other assets	\$ 106,034,031	\$ 114,385,670	\$ 54,566,423	\$ 55,463,066	\$ 160,600,454	\$ 169,848,736
Capital assets	156,960,954	158,301,099	168,629,674	175,986,802	325,590,628	334,287,901
Total assets	262,994,985	272,686,769	223,196,097	231,449,868	486,191,082	504,136,637
Current liabilities	1,549,940	3,350,776	5,007,794	6,831,849	6,557,734	10,182,625
Noncurrent liabilities	119,082,319	118,892,946	39,537,362	48,415,483	158,619,681	167,308,429
Total liabilities	120,632,259	122,243,722	44,545,156	55,247,332	165,177,415	177,491,054
Invested in capital assets, net of related debt	40,697,360	41,543,201	128,198,941	132,691,873	168,896,301	174,235,074
Restricted	100,677,773	108,437,325	18,191,152	14,270,027	118,868,925	122,707,352
Unrestricted	987,593	462,521	32,260,848	29,240,636	33,248,441	29,703,157
Total net assets	\$ 142,362,726	\$ 150,443,047	\$ 178,650,941	\$ 176,202,536	\$ 321,013,667	\$ 326,645,583

A portion of the Water Agency's net assets, \$122,707,352 (38%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$29,703,157) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Water Agency is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$5,631,916 during the current fiscal year. This increase is a result of revenues exceeding expenditures/expenses in both the governmental and business-type activities, net with the residual transfer for of the dissolution of Graton Sanitation Zone.

# Sonoma County Water Agency

## Management's Discussion and Analysis

**Year Ended June 30, 2005**

### Sonoma County Water Agency's Changes in Net Assets

	Governmental		Business-Type		Total	
	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05
Revenues:						
Program Revenues:						
Charges for Services	\$ 677,927	\$ 644,341	\$ 31,165,957	\$ 29,637,352	\$ 31,843,884	\$ 30,281,693
Capital Grants and Contributions	39,875	281,689	928,444	2,655,365	968,319	2,937,054
General Revenues:						
Property Taxes	15,873,877	12,501,248	55,507	38,657	15,929,384	12,539,905
Investment Earnings	(2,228,006)	8,975,119	584,162	1,066,422	(1,643,844)	10,041,541
Miscellaneous	141,360	295,728	31,361	164,846	172,721	460,574
<b>Total Revenues</b>	<b>14,505,033</b>	<b>22,698,125</b>	<b>32,765,431</b>	<b>33,562,642</b>	<b>47,270,464</b>	<b>56,260,767</b>
Expenses:						
General Government	3,973,647	3,547,566	-	-	3,973,647	3,547,566
Flood Control	4,421,076	5,700,693	-	-	4,421,076	5,700,693
Warm Springs Dam	644,307	468,937	-	-	644,307	468,937
Interest on long-term debt	3,734,026	3,749,469	-	-	3,734,026	3,749,469
Water Transmission	-	-	27,094,221	27,353,386	27,094,221	27,353,386
Water Supply	-	-	5,227,115	3,478,823	5,227,115	3,478,823
Sanitation	-	-	3,670,622	3,432,335	3,670,622	3,432,335
<b>Total Expenses</b>	<b>12,773,056</b>	<b>13,466,665</b>	<b>35,991,958</b>	<b>34,264,544</b>	<b>48,765,014</b>	<b>47,731,209</b>
Increase in Net Assets						
Before transfers	1,731,977	9,231,460	(3,226,527)	(701,902)	(1,494,550)	8,529,558
Transfers	(3,475,742)	(1,151,139)	3,025,742	1,073,327	(450,000)	(77,812)
Special Item – Dissolution of Graton Sanitation Zone	-	-	-	(2,819,830)	-	(2,819,830)
<b>Increase in Net Assets</b>	<b>(1,743,765)</b>	<b>8,080,321</b>	<b>(200,785)</b>	<b>(2,448,405)</b>	<b>(1,944,550)</b>	<b>5,631,916</b>
Net Assets - beginning of year	144,106,491	142,362,726	178,851,726	178,650,941	322,958,217	321,013,667
<b>Net Assets - end of year</b>	<b>\$ 142,362,726</b>	<b>\$150,443,047</b>	<b>\$ 178,650,941</b>	<b>\$176,202,536</b>	<b>\$ 321,013,667</b>	<b>\$ 326,645,583</b>

### Governmental Activities

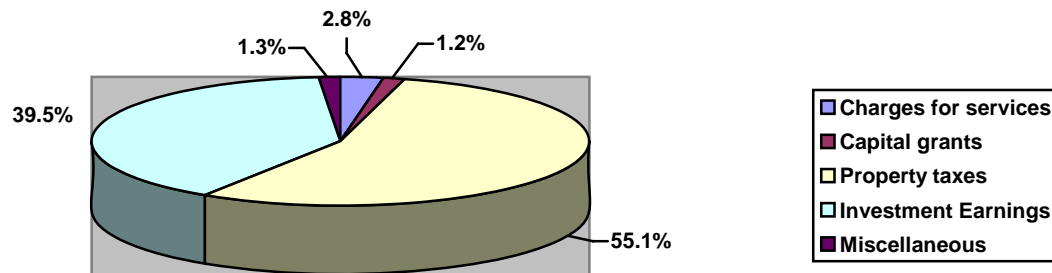
Governmental activities increased the Water Agency's net assets by \$8,080,321. Key elements of the Agency's governmental activities are identified below.

- Property tax revenues of \$12,501,248 including \$3,868,438 received for the purpose of debt retirement and satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam. Property tax revenues were significantly less (\$3,372,629) than the prior year due to the requirement to shift property tax revenues to the Educational Revenue Augmentation Fund (ERAF) per Proposition 1A. Property tax revenues for 2005/06 will also be subject to a shift to ERAF.
- Investment gains totaling \$8,975,119 due primarily to an \$8,060,916 increase in the fair market value of STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the US Army Corps of Engineers for Warm Springs Dam.

**Sonoma County Water Agency's Changes in Net Assets** (continued)

- Revenues for 2004-05 increased by \$8,193,092 over the prior fiscal year while expenditures increased by \$693,609 over the same period. This revenue increase is due primarily to the increase in fair market value of STRIPS compared to 2003-04 (\$10,666,009) offset by the aforementioned reduction in property tax revenue due to ERAF.

*Revenues by Source – Governmental Activities*



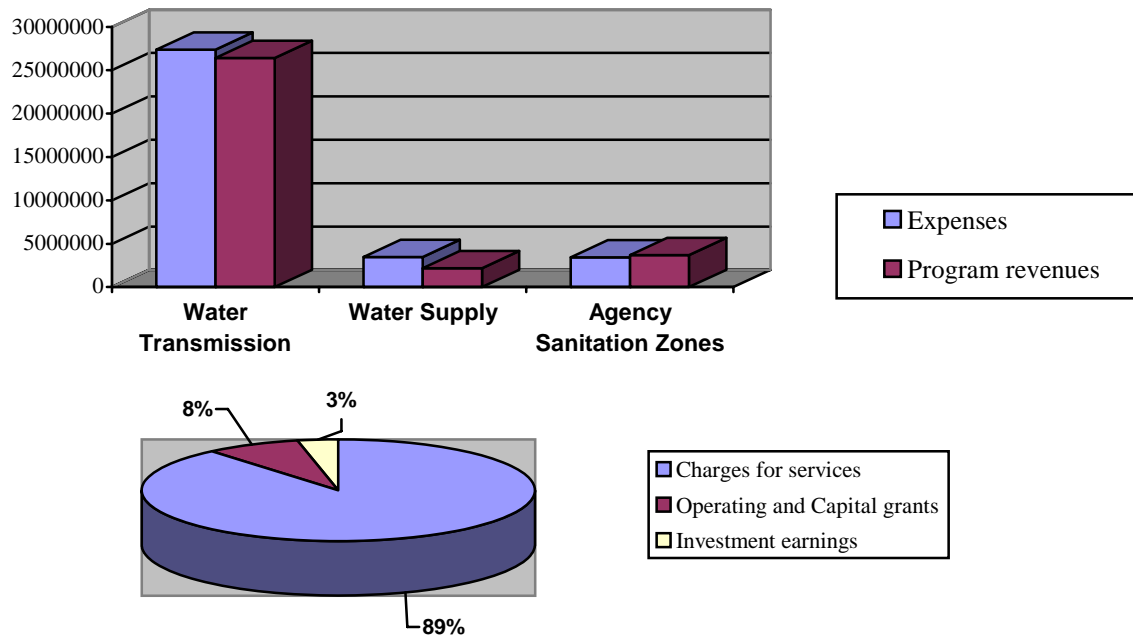
*Business-type activities*

Business-type activities decreased the Water Agency's net assets by \$2,448,405. Key elements of the Agency's Business-type activities are identified below.

- Water sales revenues decreased 3.8%, due primarily to a 6% decrease in total acre-feet sold during 2004/05.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwelling (ESDs) serviced by the Water Agency's four sanitation zones.
- Capital Grants and contributions totaling \$2,655,365 were received in fiscal year 04/05. A payment received from the Marin Municipal Water District in the amount of \$6,326,257 for additional water delivery rights, \$129,107 of which was recognized as revenue in fiscal year 04/05. Grants include funding from the state towards: Mumford Dam fish passage, Prop 13 watershed restoration, North San Pablo Bay restoration, and North County Agricultural Reuse project.
- Investment Earnings for FY 2004-05 totaled \$1,066,422.
- Transfers from the Water Agency's General Fund totaling \$1,073,327 were received during 2004-05. These transfers were for the purpose of financing various capital projects related to recycled water (\$505,532), various sanitation projects (\$3,812), and financing of the Water Agency's new administrative building (\$563,983). A residual transfer out totaling \$2,819,830 was processed to close out the Graton Sanitation Zone which was dissolved effective July 1, 2004.

**Sonoma County Water Agency's Changes in Net Assets (continued)**

*Expenses and Program Revenues – Business-type Activities*



*Revenues by Source – Business-type activities*

**Financial Analysis of the Government's Funds**

As noted earlier, the Water Agency uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

*Governmental funds*

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$111,321,376 an increase of \$8,080,321 in comparison with the prior year. Approximately 28% of this total amount (\$31,114,198) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$77,058,914), 2) to liquidate contracts and purchase orders of the prior period (\$2,323,264), 3) for advances (\$250,000) and 4) for contingencies (\$575,000).

Management's Discussion and Analysis

---

Year Ended June 30, 2005

---

**Financial Analysis of the Government's Funds** (continued)

*Governmental funds* (continued)

The general fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved fund balance of the general fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was \$1,794,954, while total fund balance reached \$3,691,151.

The special revenue fund, consisting of six (6) flood control zones and Warm Springs Dam has a fiscal year end fund balance of \$31,378,411, of which \$29,319,244 is unreserved with the remaining fund balance of \$1,559,167 being reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$76,251,814, all of which is reserved for the payment of debt service.

*Proprietary funds*

The Water Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Transmission services at the end of the year amounted to \$17,409,066, Water Supply amounted to \$1,810,520 and those for the Sanitation services amounted to \$5,198,088. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Water Agency's business-type activities.

**General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected an increase in budgeted appropriations of \$1,088,000, while budgeted revenues were increased by \$254,475 during the fiscal year.

The primary components of the increase in budgeted expenses consists of 1) a \$1,453,000 increase in appropriations for services and supplies related to higher than anticipated costs for various items including administration, rent for the new administration building, and costs related to the Camp Meeker sewer project, 2) a \$78,000 decrease in appropriations for capital outlay towards services and supplies, 3) a \$253,000 decrease within contingencies towards services and supplies, 4) a reduction of \$50,000 in transfers out due to less than anticipated funding needed by Water Supply and 5) a \$16,000 increase in transfers to the Occidental County Sanitation District to finance various operating expenses.

## Management's Discussion and Analysis

Year Ended June 30, 2005

**Capital Asset and Debt Administration***Capital assets*

The Water Agency's investment in capital assets for its governmental and business type activities at June 30, 2005, amounts to \$334,287,901 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Major capital asset events during the current fiscal year included the following:

*Governmental Activities:*

- Improvements within Flood Control Zone 1A including:  
Santa Rosa Creek revegetation - \$1,162,000  
Capri Creek revegetation - \$489,000
- Flood Control Zone 2A including:  
Adobe Creek revegetation & sediment removal - \$238,000

*Business Type Activities:*

- Capital expansion within the Storage Facilities fund including:  
Kawana Springs Tank #2 - \$208,000
- Capital expansion within the Common Facilities fund including:  
Pump/Collector Capacity expansion - \$2,395,000  
Water Transmission system diversion alternatives - \$719,000  
Pump / Collector Pipeline - \$3,905,000  
Transmission system expansion - \$1,052,000
- Capital expansion within the Pipeline Facilities fund including:  
Eldridge/Madrone pipeline - \$490,000

**Sonoma County Water Agency's Capital Assets**  
(net of depreciation)

	Governmental		Business-Type		Total	
	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000	\$ 102,371,000
Land	1,537,528	1,824,010	10,072,404	9,655,701	11,609,932	11,479,711
Buildings and improvements	2,377,710	2,291,644	95,708,917	118,574,418	98,086,627	120,866,062
Machinery and equipment	326,674	350,558	2,408,004	2,327,733	2,734,678	2,678,291
Construction in Progress	3,883,366	4,077,460	60,440,349	45,428,950	64,323,715	49,506,410
Infrastructure	46,464,676	47,386,427	-	-	46,464,676	47,386,427
<b>Total</b>	<b>\$ 156,960,954</b>	<b>\$ 158,301,099</b>	<b>\$ 168,629,674</b>	<b>\$175,986,802</b>	<b>\$ 325,590,628</b>	<b>\$ 334,287,901</b>

Additional information on the Water Agency's capital assets can be found in Note F on pages 45 - 47 of this report.

## Management's Discussion and Analysis

Year Ended June 30, 2005

**Capital Asset and Debt Administration** (continued)*Long-term debt*

At the end of the current fiscal year, the Water Agency had a total of \$162,251,035 in outstanding debt consisting of bonds, Federal contract payable, capital leases payable and compensated absences. Of this amount \$462,000 comprises debt backed by the full faith and credit of the government, \$21,225,000 is a special obligation payable from the Water Agency's operating income, \$116,757,898 is a federal contract payable related to the water storage rights at Warm Springs Dam, \$10,269,727 is related to capital leases, \$2,135,048 is comprised of amounts payable to employees for unused sick and vacation leave upon termination, and \$11,401,362 represents funds advanced to the Water Agency from other governmental entities.

**Sonoma County Water Agency's Outstanding Current and Long Term Debt**

	June 30, 2004	June 30, 2005	Change
General Obligation Bonds	\$ 662,000	\$ 462,000	(30.2) %
Capital Leases	9,393,029	10,269,727	9.3 %
Revenue Bonds	21,685,000	21,225,000	(2.1) %
Advances from other governments/Due to other funds	8,756,524	11,401,362	30.2 %
Federal Contract Payable	116,263,594	116,757,898	0.4 %
Compensated Absences	2,011,625	2,135,048	6.1 %
<b>Total</b>	<b>\$ 158,771,772</b>	<b>\$ 162,251,035</b>	<b>2.2 %</b>

The Water Agency's total debt increased by \$3,479,263 (2.2%) during the current fiscal year.

The outstanding total of general obligation bonds decreased 30.2% during fiscal year 04/05 due primarily to the dissolution of the Graton sanitation zone. The outstanding total of capital leases increased (9.3%) during fiscal year 04/05 and was due to the issuance of a capital lease in the amount of \$2,000,000 to finance a photovoltaic project for the Agency's new administration building. The increase in advances is due to the receipt of an additional \$2,644,838 in loan proceeds from the state for financing the Collector 6 capital project.

The increase in the Federal contract payable is the net effect of principal reduction due to the annual debt payments, and the addition of accrued interest on the unpaid principal. The terms of the agreement with the Federal government stipulate that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal.

Compensated absences increased due to sick and vacation leave being accrued in excess of the actual usage.

The decrease in general obligation and revenue bonds is related to principal reduction due to the required annual debt payments.

Additional information on the Water Agency's current and long-term debt can be found in Note L on pages 51 - 56 of this report.

**Management's Discussion and Analysis**

**Year Ended June 30, 2005**

**Next Year's Budgets and Rates**

During the current year, unreserved fund balance in the general fund increased to \$3,691,151. The Water Agency has appropriated \$2,091,926 of this amount for spending in the 2005-2006 fiscal year budget.

Both the water and sewer rates were increased for the 2005-2006 budget year. The water rates were increased by an average of 2.50%, while the sewer rates increased an average of 6.37%.

Following are tables showing the rates charged per acre-foot of water used for municipal purposes by water contractors, along with sanitation services rates and equivalent single family dwellings by sanitation zone.

**Charges per Acre-Foot for Water Used for  
Municipal Purposes by Water Contractors**

	Santa Rosa Aqueduct	Petaluma Aqueduct	Forestville Aqueduct	Sonoma Aqueduct
Operations & Maintenance	\$ 350.49	\$ 350.49	\$ 350.49	\$ 350.49
Revenue Bonds Charges				
Aqueduct Rev. Bonds Charge	0.00	0.00	0.00	31.85
Storage Fac. Rev. Bonds Charge	7.72	7.72	7.72	7.72
Common Fac. Rev Bonds Charge	34.47	34.47	34.47	34.47
Aqueduct Capital Charge	20.00	40.00	0.00	0.00
<b>Total</b>	<b>\$ 412.68</b>	<b>\$ 432.68</b>	<b>\$ 392.68</b>	<b>\$ 424.53</b>

**Rate per Equivalent Single-Family Dwelling**

	2004/05	2005/06	Change
Sanitation Zone			
Sea Ranch	637	675	5.97%
Penngrove	635	697	9.76%
Geyserville	595	616	3.53%
Airport/Larkfield/Wikiup	392	415	5.87%

**Number of Equivalent Single-Family Dwellings  
by Sanitation Zone**

	2004/05	2005/06	Change
Sanitation Zone			
Sea Ranch	529	536	1.32%
Penngrove	495	497	0.40%
Geyserville	338	332	(1.78)%
Airport/Larkfield/Wikiup	3,473	3,252	(6.36)%



**Management's Discussion and Analysis**

---

**Year Ended June 30, 2005**

---

**Request for Additional Information:**

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

**Basic Financial Statements**

***Government-wide Financial Statements***

**Sonoma County Water Agency**

**Statement of Net Assets**

**June 30, 2005**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets			
Cash and investments	\$ 113,596,114	\$ 37,667,324	\$ 151,263,438
Receivables	158,638	6,192,770	6,351,408
Inventories	-	223,708	223,708
Total current assets	113,754,752	44,083,802	157,838,554
Noncurrent assets			
Advances to other county districts, net of allowance	630,918	-	630,918
Restricted assets			
Cash and investments- revenue bond funds	-	8,777,230	8,777,230
Cash and investments with trustee	-	1,663,048	1,663,048
Cash and investments - Notes payable	-	529,602	529,602
Deposits with others	-	13,000	13,000
Total restricted assets	630,918	10,982,880	11,613,798
Deferred charges	-	396,384	396,384
Capital assets (net of accumulated depreciation):			
Intangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,824,010	9,655,701	11,479,711
Infrastructure	47,386,427	-	47,386,427
Buildings and improvements	2,291,644	118,574,418	120,866,062
Construction in progress	4,077,460	45,428,950	49,506,410
Equipment	350,558	2,327,733	2,678,291
Total capital assets	158,301,099	175,986,802	334,287,901
Total noncurrent assets	158,932,017	187,366,066	346,298,083
Total assets	272,686,769	231,449,868	504,136,637

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**

**Statement of Net Assets (continued)**

**June 30, 2005**

	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Current liabilities payable from unrestricted assets			
Accounts payable and accrued expenses	2,530,998	5,233,939	7,764,937
Deferred revenue	12,678	148,055	160,733
Total current liabilities payable from unrestricted assets	2,543,676	5,381,994	7,925,670
Current liabilities payable from restricted assets			
Deposits from others	-	4,230	4,230
Due to other related governments	807,100	-	807,100
Interest payable	-	498,136	498,136
General obligation bonds payable	-	23,000	23,000
Notes payable	-	449,489	449,489
Revenue bonds payable	-	475,000	475,000
Total current liabilities payable from restricted assets	807,100	1,449,855	2,256,955
Total current liabilities	3,350,776	6,831,849	10,182,625
Noncurrent liabilities			
Compensated absences	2,135,048	-	2,135,048
General obligation bonds payable	-	439,000	439,000
Notes payable	-	9,820,238	9,820,238
Revenue bonds payable	-	20,686,840	20,686,840
Long-term contracts payable	116,757,898	-	116,757,898
Advances from other governments	-	11,401,362	11,401,362
Deferred revenue	-	6,068,043	6,068,043
Total noncurrent liabilities	118,892,946	48,415,483	167,308,429
Total liabilities	122,243,722	55,247,332	177,491,054
<b>Net assets</b>			
Invested in capital assets, net of related debt	41,543,201	132,691,873	174,235,074
Restricted for flood control	21,869,575	-	21,869,575
Restricted for Warm Springs Dam	9,508,836	-	9,508,836
Restricted for debt service	77,058,914	10,480,514	87,539,428
Restricted for recycled water/ water conservation	-	3,789,513	3,789,513
Unrestricted	462,521	29,240,636	29,703,157
Total net assets	\$ 150,443,047	\$ 176,202,536	\$ 326,645,583

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**

**Statement of Activities**

**For the Year Ended June 30, 2005**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental activities:							
General government	\$ 3,547,566	\$ 644,341	\$ -	\$ 153,409	\$ (2,749,816)	\$ -	\$ (2,749,816)
Flood control	5,700,693	-	-	82,572	(5,618,121)	-	(5,618,121)
Warm Springs Dam	468,937	-	-	45,708	(423,229)	-	(423,229)
Interest on long-term debt	3,749,469	-	-	-	(3,749,469)	-	(3,749,469)
Total governmental activities	13,466,665	644,341	-	281,689	(12,540,635)	-	(12,540,635)
Business-type activities:							
Water transmission	27,353,386	26,408,245	-	-	-	(945,141)	(945,141)
Water supply	3,478,823	1,115,437	129,107	937,642	-	(1,296,637)	(1,296,637)
Sanitation	3,432,335	2,113,670	-	1,588,616	-	269,951	269,951
Total business-type activities	\$ 34,264,544	\$ 29,637,352	\$ 129,107	\$ 2,526,258	-	(1,971,827)	(1,971,827)
					(12,540,635)	(1,971,827)	(14,512,462)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					8,632,810	-	8,632,810
Property taxes, levied for debt service/assurances					3,868,438	38,657	3,907,095
Unrestricted investment earnings					8,975,119	1,066,422	10,041,541
Miscellaneous					295,728	164,846	460,574
Transfers					(1,073,327)	1,073,327	-
Transfers to related governments					(77,812)	-	(77,812)
Special item-Dissolution of Graton Sanitation Zone					-	(2,819,830)	(2,819,830)
Total general revenues and transfers					20,620,956	(476,578)	20,144,378
Change in net assets					8,080,321	(2,448,405)	5,631,916
Net assets at beginning of year					142,362,726	178,650,941	321,013,667
Net assets at end of year					\$ 150,443,047	\$ 176,202,536	\$ 326,645,583

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

## **Basic Financial Statements**

### ***Fund Financial Statements***

**Sonoma County Water Agency  
Balance Sheet  
Governmental Funds**

**June 30, 2005**

		Special Revenue Funds			
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 3,920,648	\$ 23,664,523	\$ 9,759,129	\$ 76,251,814	\$ 113,596,114
Accounts receivable	158,638	-	-	-	158,638
Due from other related governments net of allowance	917,400	-	-	-	917,400
Total assets	\$ 4,996,686	\$ 23,664,523	\$ 9,759,129	\$ 76,251,814	\$ 114,672,152
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 485,757	\$ 1,794,948	\$ 250,293	\$ -	\$ 2,530,998
Accrued expenses	-	-	-	-	-
Due to other related governments	807,100	-	-	-	807,100
Advances from other related governments	-	-	-	-	-
Deferred revenue	12,678	-	-	-	12,678
Total liabilities	1,305,535	1,794,948	250,293	-	3,350,776
<b>Fund balances</b>					
Reserved for:					
Encumbrances	764,097	1,559,167	-	-	2,323,264
Debt service	807,100	-	-	76,251,814	77,058,914
Advances	250,000	-	-	-	250,000
Unreserved					
Designated for contingencies	75,000	500,000	-	-	575,000
Undesignated	1,794,954	19,810,408	9,508,836	-	31,114,198
Total fund balances	3,691,151	21,869,575	9,508,836	76,251,814	111,321,376
<b>Total liabilities and fund balances</b>	<b>\$ 4,996,686</b>	<b>\$ 23,664,523</b>	<b>\$ 9,759,129</b>	<b>\$ 76,251,814</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the funds.	158,301,099
Capital assets received in lieu of payment of Advances from Other County Districts are not financial resources and is, therefore not reported in the funds.	(286,482)
Some liabilities, including long-term contracts payable, are not due in the current period and, therefore, are not reported in the funds.	(118,892,946)

**Net assets of governmental activities** **\$ 150,443,047**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**

**Year Ended June 30, 2005**

	Special Revenue Funds				
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 4,040,636	\$ 4,592,174	\$ 3,868,438	\$ -	\$ 12,501,248
Investment earnings	101,734	559,157	183,834	8,130,394	8,975,119
Intergovernmental	153,409	82,572	45,708	-	281,689
Charges for services	644,341	-	-	-	644,341
Miscellaneous	264,913	30,815	-	-	295,728
<b>Total revenue</b>	<b>5,205,033</b>	<b>5,264,718</b>	<b>4,097,980</b>	<b>8,130,394</b>	<b>22,698,125</b>
<b>Expenditures</b>					
Current					
Salaries and benefits	20,383,501	-	-	-	20,383,501
Services and supplies	8,474,750	4,250,636	468,937	-	13,194,323
Costs applied	(25,606,603)	-	-	-	(25,606,603)
Capital outlay	110,313	2,565,902	-	-	2,676,215
Debt service					
Principal	-	-	-	1,216,862	1,216,862
Interest and fiscal charges	-	-	1,711,166	2,038,303	3,749,469
<b>Total expenditures</b>	<b>3,361,961</b>	<b>6,816,538</b>	<b>2,180,103</b>	<b>3,255,165</b>	<b>15,613,767</b>
<b>Excess of revenue over (under) expenditures</b>	<b>1,843,072</b>	<b>(1,551,820)</b>	<b>1,917,877</b>	<b>4,875,229</b>	<b>7,084,358</b>
<b>Other financing sources (uses)</b>					
Long-term contract proceeds	-	-	1,711,166	-	1,711,166
Transfers in	-	-	-	1,000,000	1,000,000
Transfers out	(1,073,327)	-	(1,000,000)	-	(2,073,327)
Transfers to related governments	(77,812)	-	-	-	(77,812)
<b>Total other financing sources (uses)</b>	<b>(1,151,139)</b>	<b>-</b>	<b>711,166</b>	<b>1,000,000</b>	<b>560,027</b>
<b>Net changes in fund balances</b>	<b>691,933</b>	<b>(1,551,820)</b>	<b>2,629,043</b>	<b>5,875,229</b>	<b>7,644,385</b>
<b>Fund balances at beginning of year</b>	<b>2,999,218</b>	<b>23,421,395</b>	<b>6,879,793</b>	<b>70,376,585</b>	<b>103,676,991</b>
<b>Fund balances at end of year</b>	<b>\$ 3,691,151</b>	<b>\$ 21,869,575</b>	<b>\$ 9,508,836</b>	<b>\$ 76,251,814</b>	<b>\$ 111,321,376</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement



**Sonoma County Water Agency**

**Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities**

---

**Year Ended June 30, 2005**

---

Net change in fund balances - total governmental funds (page 19)	\$ 7,644,385
Amounts reported for governmental activities in the statement of activities (page 17) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,676,215) exceeded depreciation (\$1,622,552) in the current period.	1,053,663
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.	1,216,862
Change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore, is not reported as expenditures in governmental funds.	(123,423)
Long-term contract proceeds which increases the long-term liabilities in the statement of net assets.	(1,711,166)
<b>Changes in net assets of governmental activities (page 17)</b>	<b>\$ 8,080,321</b>

---

**Sonoma County Water Agency  
Statement of Net Assets  
Proprietary Funds**

**June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
<b>Assets</b>					
Current assets					
Cash and investments	\$ 21,162,282	\$ 7,540,443	\$ 4,073,042	\$ 32,775,767	\$ 4,891,557
Receivables	3,423,123	1,241,202	1,528,445	6,192,770	-
Inventories	223,708	-	-	223,708	-
<b>Total current assets</b>	<b>24,809,113</b>	<b>8,781,645</b>	<b>5,601,487</b>	<b>39,192,245</b>	<b>4,891,557</b>
Noncurrent assets					
Restricted assets					
Cash - revenue bond funds	8,669,750	-	107,480	8,777,230	-
Cash and investments with trustee	1,662,260	-	788	1,663,048	-
Cash - Notes payable	-	-	-	-	529,602
Deposits with others	13,000	-	-	13,000	-
<b>Total restricted assets</b>	<b>10,345,010</b>	<b>-</b>	<b>108,268</b>	<b>10,453,278</b>	<b>529,602</b>
Deferred charges	240,932	-	155,452	396,384	-
Capital assets (net of accumulated depreciation):					
Land	5,350,882	-	1,614,958	6,965,840	2,689,861
Construction in progress	37,795,682	5,475,483	883,733	44,154,898	1,274,052
Buildings and improvements	75,671,396	3,114,932	25,366,527	104,152,855	14,421,563
Equipment	546,983	-	32,705	579,688	1,748,045
<b>Total capital assets</b>	<b>119,364,943</b>	<b>8,590,415</b>	<b>27,897,923</b>	<b>155,853,281</b>	<b>20,133,521</b>
<b>Total noncurrent assets</b>	<b>129,950,885</b>	<b>8,590,415</b>	<b>28,161,643</b>	<b>166,702,943</b>	<b>20,663,123</b>
<b>Total assets</b>	<b>154,759,998</b>	<b>17,372,060</b>	<b>33,763,130</b>	<b>205,895,188</b>	<b>25,554,680</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**  
**Statement of Net Assets**  
**Proprietary Funds (continued)**

**June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal
	Water Transmission	Water Supply	Sanitation	Total	Service Funds
<b>Liabilities</b>					
Current liabilities payable from unrestricted assets					
Accounts payable and accrued expenses	\$ 3,851,466	\$ 773,975	\$ 539,903	\$ 5,165,344	\$ 68,595
Deferred revenue	-	129,107	18,948	148,055	-
 Total current liabilities payable from unrestricted assets	 3,851,466	 903,082	 558,851	 5,313,399	 68,595
Current liabilities payable from restricted assets					
Deposits from others	4,230	-	-	4,230	-
Interest payable	335,879	-	82,144	418,023	80,113
General obligation bonds payable	-	-	23,000	23,000	-
Notes payable	-	-	-	-	449,489
Revenue bonds payable	315,000	-	160,000	475,000	-
 Total current liabilities payable from restricted assets	 655,109	 -	 265,144	 920,253	 529,602
 Total current liabilities	 4,506,575	 903,082	 823,995	 6,233,652	 598,197
Noncurrent liabilities					
General obligation bonds payable	-	-	439,000	439,000	-
Notes payable	-	-	-	-	9,820,238
Revenue bonds payable	14,882,797	-	5,804,043	20,686,840	-
Advance from other governments	11,401,362	-	-	11,401,362	-
Deferred revenue	-	6,068,043	-	6,068,043	-
 Total noncurrent liabilities	 26,284,159	 6,068,043	 6,243,043	 38,595,245	 9,820,238
 Total liabilities	 30,790,734	 6,971,125	 7,067,038	 44,828,897	 10,418,435

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**  
**Statement of Net Assets**  
**Proprietary Funds (continued)**

**June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
<b>Net assets</b>					
Invested in capital assets, net of related debt	\$92,765,784	\$ 8,590,415	\$21,471,880	\$122,828,079	\$ 9,863,794
Restricted for debt service	10,004,901	-	26,124	10,031,025	449,489
Restricted for recycled water/ water conservation	3,789,513	-	-	3,789,513	-
Unrestricted	17,409,066	1,810,520	5,198,088	24,417,674	4,822,962
<b>Total net assets</b>	<b>123,969,264</b>	<b>10,400,935</b>	<b>26,696,092</b>	<b>161,066,291</b>	<b>15,136,245</b>
Adjustment to reflect the consolidation of internal service funds net assets related to the enterprise funds				<u>15,136,245</u>	
Total net assets of business-type activities				<u>\$ 176,202,536</u>	

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds**

**Year Ended June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal
	Water Transmission	Water Supply	Sanitation	Total	Service Funds
<b>Operating revenue</b>					
Water sales	\$ 25,400,266	\$ 1,115,437	\$ -	\$ 26,515,703	\$ -
Water services	33,026	-	-	33,026	-
Power sales	974,953	-	-	974,953	-
Flat charges	-	-	1,996,648	1,996,648	-
Sanitation services	-	-	117,022	117,022	-
Equipment rental	-	-	-	-	1,524,568
Real estate rental	-	-	-	-	1,487,852
Miscellaneous	74,220	38	74,483	148,741	5,795
<b>Total operating revenue</b>	<b>26,482,465</b>	<b>1,115,475</b>	<b>2,188,153</b>	<b>29,786,093</b>	<b>3,018,215</b>
<b>Operating expenses</b>					
Services and supplies	24,571,852	3,338,274	2,039,212	29,949,338	2,051,531
Depreciation and amortization	2,483,034	129,466	1,043,434	3,655,934	921,072
<b>Total operating expenses</b>	<b>27,054,886</b>	<b>3,467,740</b>	<b>3,082,646</b>	<b>33,605,272</b>	<b>2,972,603</b>
<b>Operating income (loss)</b>	<b>(572,421)</b>	<b>(2,352,265)</b>	<b>(894,493)</b>	<b>(3,819,179)</b>	<b>45,612</b>
<b>Nonoperating revenue (expenses)</b>					
Taxes and assessments	-	-	38,657	38,657	-
Investment earnings	835,893	34,471	100,202	970,566	95,856
Interest expense	-	-	(311,288)	(311,288)	(393,596)
Gain on sale of assets	-	-	-	-	16,105
Intergovernmental revenue- capital	-	937,642	457	938,099	-
Intergovernmental revenue- non-capital	-	129,107	-	129,107	-
<b>Total nonoperating revenue (expense)</b>	<b>835,893</b>	<b>1,101,220</b>	<b>(171,972)</b>	<b>1,765,141</b>	<b>(281,635)</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds (continued)**

**Year Ended June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal
	Water Transmission	Water Supply	Sanitation	Total	Service Funds
<b>Net income (loss) before contributions and transfers</b>	263,472	(1,251,045)	(1,066,465)	(2,054,038)	(236,023)
Capital contribution:					
Connection fees	-	-	1,519,957	1,519,957	-
Other	-	-	68,202	68,202	-
Transfers in	-	505,532	3,812	509,344	563,983
Special Item - Dissolution of Graton Sanitation Zone	-	-	(2,819,830)	\$ (2,819,830)	-
<b>Change in net assets</b>	263,472	(745,513)	(2,294,324)	(2,776,365)	327,960
<b>Net assets at beginning of year</b>	123,705,792	11,146,448	28,990,416		14,808,285
<b>Net assets at end of year</b>	\$ 123,969,264	\$ 10,400,935	\$ 26,696,092		\$ 15,136,245
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds				327,960	
Change in net assets of business-type activities				\$ (2,448,405)	

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency  
Statement of Cash Flows  
Proprietary Funds**

**Year Ended June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal
	Water Transmission	Water Supply	Sanitation	Total	Service Funds
<b>Cash flows from operating activities</b>					
Receipts from customers	\$ 26,704,171	\$ 1,084,378	\$ 2,155,648	\$ 29,944,197	\$ -
Payments for interfund services provided	-	-	-	-	3,018,215
Payments for interfund services used	(13,112,504)	(1,593,044)	(1,084,992)	(15,790,540)	(1,191,836)
Payments to suppliers	(10,537,281)	(1,590,935)	(712,302)	(12,840,518)	(874,527)
Net cash provided by (used in) operating activities	3,054,386	(2,099,601)	358,354	1,313,139	951,852
<b>Cash flows from noncapital financing activities</b>					
Taxes and assessments	-	-	38,657	38,657	-
Intergovernmental-non-capital receipts	-	6,326,257	-	6,326,257	-
Net cash provided by noncapital financing activities	-	6,326,257	38,657	6,364,914	-
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets	(9,566,810)	(147,540)	(244,034)	(9,958,384)	(3,208,947)
Principal paid on capital debt	(310,000)	-	(172,000)	(482,000)	(357,562)
Interest paid on capital debt	(950,028)	-	(343,967)	(1,293,995)	(397,060)
Proceeds from long-term debt	2,644,838	-	-	2,644,838	2,000,000
Intergovernmental-capital receipts	-	500,737	457	501,194	-
Proceeds from Capital contributions-Connection fees	-	-	99,757	99,757	-
Capital contributions-Other	-	-	66,900	66,900	6,375
Proceeds from sale capital assets	-	-	-	-	16,105
Transfers in	-	505,531	3,812	509,343	563,983
Special Item- Dissolution of Graton Sanitation Zone	-	-	(1,198,271)	(1,198,271)	-

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency**  
**Statement of Cash Flows**  
**Proprietary Funds (continued)**

**Year Ended June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Net cash provided by (used in ) capital and related financing activities	(8,182,000)	858,728	(1,787,346)	(9,110,618)	(1,377,106)
<b>Cash flows from investing activities</b>					
Interest income	835,893	34,471	100,202	970,566	95,857
<b>Net increase (decrease) in cash and cash equivalents</b>	(4,291,721)	5,119,855	(1,290,133)	(461,999)	(329,397)
<b>Balances at beginning of year</b>	35,786,013	2,420,588	5,471,443	43,678,044	5,750,556
<b>Balances at end of year</b>	\$ 31,494,292	\$ 7,540,443	\$ 4,181,310	\$ 43,216,045	\$ 5,421,159

**Cash and cash equivalents includes the following at June 30, 2005:**

Cash and investments	\$ 21,162,282	\$ 7,540,443	\$ 4,073,042	\$ 32,775,767	\$ 4,891,557
Restricted cash and investments	10,332,010	-	108,268	10,440,278	529,602
	\$ 31,494,292	\$ 7,540,443	\$ 4,181,310	\$ 43,216,045	\$ 5,421,159

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement



**Sonoma County Water Agency**  
**Statement of Cash Flows**  
**Proprietary Funds (continued)**

**Year Ended June 30, 2005**

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ (572,421)	\$ (2,352,265)	\$ (894,493)	\$ (3,819,179)	\$ 45,612
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation expense and amortization expense	2,483,034	129,466	1,043,434	3,655,934	921,072
Change in assets and liabilities					
Receivables, net	221,707	(31,097)	(32,506)	158,104	-
Inventory	(17,267)	-	-	(17,267)	-
Accounts payable and other payables	939,333	154,295	241,919	1,335,547	(14,832)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 3,054,386</b>	<b>\$ (2,099,601)</b>	<b>\$ 358,354</b>	<b>\$ 1,313,139</b>	<b>\$ 951,852</b>
<b>Noncash investing, capital and financing activities:</b>					
Increase (decrease) in Project costs included in accounts payable	\$ 277,353	\$ (71,273)	\$ 112,010	\$ 318,090	\$ 21,279
Net increase (decrease) in fair value of investment in County Treasurer's pooled cash	\$ 72,762	\$ 18,392	\$ 10,197	\$ 101,351	\$ (13,150)
Dissolution of Graton Sanitation Zone (See Note C)	\$ -	\$ -	\$ (1,621,559)	\$ (1,621,559)	\$ -

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds**

**June 30, 2005**

Agency  
Fund

**Assets**

Current restricted assets  
Cash and investments

\$ 27,524

**Total current restricted assets**

\$ 27,524

**Liabilities**

Current liabilities payable from restricted assets  
Due to other funds  
Deposits from others

\$ 13,424

14,100

**Total current liabilities payable from restricted assets**

\$ 27,524

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Notes to the Basic Financial Statements

---

Year Ended June 30, 2005

---

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Special Item - Dissolution of Graton Sanitation Zone
- Note D. Stewardship, Compliance and Accountability
- Note E. Cash and Investments
- Note F. Capital Assets
- Note G. Employees' Retirement Plan
- Note H. Post Employment Benefits
- Note I. Deferred Compensation Plan
- Note J. Interfund Accounts
- Note K. Leases and Agreements
- Note L. Long-Term Obligations
- Note M. Deferred Revenue
- Note N. Related Party Transactions
- Note O. Commitments and Contingencies
- Note P. Future Governmental Accounting Standard
- Note Q. Subsequent Event

**Note A. Defining the Financial Reporting Entity**

The Sonoma County Water Agency (the "Water Agency") was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to seven prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, and Cotati, as well as Valley of the Moon, and North Marin Water Districts). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. These sewer sanitation zones provide sanitation services. Under a reorganization effective July 1, 2004, the Graton Sanitation Zone was dissolved and its assets, liabilities, facilities and operations were transferred to the Graton Community Services District.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's reporting entity. Therefore, the Water Agency's basic financial statements have also been included as a component unit in the County's annual financial report for the fiscal years ended June 30, 2005 and 2004.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

**Note B. Summary of Significant Accounting Policies***Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) displays information on the Sonoma County Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Water Agency at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

**Note B. Summary of Significant Accounting Policies (continued)***Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows takes place. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within 360 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (matured). This approach differs from the manner in which the government-wide financial statements are prepared. Government fund financial statements, therefore, include reconciliations with brief explanations to better identify their relationship between the government-wide statements and the statements for governmental funds.

For its business-type activities and enterprise funds, the Water Agency applies (a) all GASB pronouncements and (b) only FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**Note B. Summary of Significant Accounting Policies (continued)***Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Transmission Fund, the Water Supply Fund and the Sanitation Fund are charges to customers for sales and services. Operating expenses include the cost of services and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

The Water Agency's financials are presented utilizing the following major funds:

*Governmental fund types:* These are the funds through which most governmental functions typically are financed. The major funds included in this category are as follows:

*General Fund:* This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the agency are included in this fund. The fund is charged with all costs of operating the agency for which a separate fund has not been established.

*Special Revenue Funds:* These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by state, charter or ordinance to finance specific government functions.

*Flood Control:* This fund is established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures related to flood control. Six flood control zones account for the maintenance of existing flood control structures and the construction of new projects in the following areas: Zone 1A - Laguna Mark West, Zone 2A- Petaluma Basin, Zone 3A - Valley of the Moon, Zone 5A - Lower Russian River, Zone 7A - North Coast, Zone 8A - South Coast.

*Warm Springs Dam:* This fund is established for the purpose of accumulating resources for the payment of interest and principal on the long-term federal contract payable to the U.S. Army Corps of Engineers for Water Storage Rights at Warm Springs Dam.

*Debt Service Fund:* This fund includes the debt service annual obligations related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.

**Note B. Summary of Significant Accounting Policies (continued)***Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

*Proprietary fund types:* These funds account for operations that are organized to be self-supporting through user charges. The major funds included in this category are as follows:

*Water Transmission:* This fund accounts for the transportation of water and generation of electrical power for services to seven prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon, and North Marin Water Districts).

*Water Supply:* This fund accounts for the water supply and erosion control activities along the Russian River to secure and defend the Water Agency's appropriative water rights. This fund also includes program costs to convert recycled water to beneficial use.

*Sanitation:* This fund accounts for the sanitation services and for the engineering, administration and operational services of four zones: Sea Ranch, Penngrove, Geyserville and Airport-Larkfield-Wikiup.

Additionally, the Water Agency reports the following fund types:

*Internal Service Funds:* These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. These activities are recorded as operating revenue in the internal services funds, while expenses to provide the services are recorded as operating expenses. Nonoperating revenue and expenses include investment income, interest expenses and gain on sale of internal services fund assets. The Water Agency maintains separate internal service funds for equipment and facilities.

*Agency Funds:* These funds are used to account for assets held by the Water Agency on behalf of others as their agent. These funds are custodial in nature and do not involve measurement of results of operations. Funds held are surety deposits pertaining to river access for gravel mining.

*Encumbrances*

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**Note B. Summary of Significant Accounting Policies (continued)***Cash and Investments*

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Water Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool"), an internal investment pool.

The Water Agency applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and Internal Investment Pools*, which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Water Agency has stated certain pooled investments with County Treasurer at fair value.

The Water Agency applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB No. 3*, which requires governmental entities to provide proper disclosures on common deposit and investment risk related to credit risk, interest rate risk and foreign currency risk. In accordance with GASB No. 40, the Water Agency has made such disclosures.

*Receivables*

The Water Agency's accounts receivable are reported at their estimated realizable value and consist primarily of water sales to local water districts and cities.

*Inventories*

Inventory for the proprietary fund is valued at average cost. Inventory in the Water Transmission Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed.

*Restricted Assets - Enterprise Funds*

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission, Water Supply and Sanitation funds that are restricted for debt service pursuant to various debt covenants. Restricted assets also include amounts for customer deposits.

*Deferred charges - Enterprise Funds*

Deferred charges are composed of debt issuance costs of \$396,384 for the year ended June 30, 2005, from issuance of debt, net of accumulated amortization. These costs are amortized over the term of the issuance using the straight-line method which approximates the effective interest method.



**Note B. Summary of Significant Accounting Policies (continued)***Capital Assets*

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Such assets are stated at cost or, if historical cost is not available, at engineers estimated historical cost. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets acquired are capitalized in the respective fund to which it applies.

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of the assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years. Water storage rights are recorded at historical cost and are not amortized due to inexhaustible life. For information describing capital assets, see Note F.

*Capitalized interest*

Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred is netted against interest earned on the invested proceeds over the same period only when proceeds of tax exempt debt is externally restricted to the acquisition or construction of specified assets.

*Bond and Certificates of Participation Discounts*

Bond and certificates of participation discounts related to debt of proprietary fund types are deferred and amortized using the straight-line method which approximates the effective interest method over the term of issuance. These discounts netted against the related debt.

*Deferred Revenue*

In the Government-wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Water Agency records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants receivable or contributions received but not yet earned, interest or inter-fund advances receivable, long-term assessments and loans receivable.

**Note B. Summary of Significant Accounting Policies (continued)***Compensated Absences*

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

Because vacation and sick leave balances do not require the use of financial resources, no liability is recorded within the governmental funds. However, vacation and sick leave balances are reflected in the government-wide statement of net assets. The accrued liability for vacation and sick leave relating to the proprietary funds is recorded in those funds in the period earned. In compliance with GASB Statement No. 16, *Accounting for Compensated Absences*, the amount reported included estimated employer liability for taxes and workers' compensation premiums.

*Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when levied for because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

**Note B. Summary of Significant Accounting Policies (continued)***Net Assets and Fund Equity*Government-wide Financial Statements

Net assets consists of three components representing restricted and unrestricted amounts:

*Net assets invested in capital assets, net of related debt* – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds.

*Restricted Net assets* – This amount is restricted external restrictions imposed by creditors, contributors, grantors or laws or regulation of other governments.

*Unrestricted Net Assets* – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

In the fund financial statements, governmental funds report reservation or designations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Portions of unrestricted net assets, which are presented in the fund financial statements, may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

## Designated Fund Balance

## General Fund

Contingencies	\$ 575,000
---------------	------------

*Interfund Transactions*

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Costs applied consist of expenses incurred by the General Fund that have been allocated to the Water Agency's Special Revenue Funds and the Enterprise Fund. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note B. Summary of Significant Accounting Policies (continued)***Connection fees*

Sewer and water connection fees represent fees received from developers and residents to joint new or to extend existing trunk sewer systems in excess of the cost to connect. These fees may be used for operating or capital purposes. Sewer and water connection fees are recorded as revenues in the enterprise funds, in accordance with GASB Statement No. 33.

*Cash Flows*

Statement of cash flows are presented for proprietary fund types. For this purpose, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

*Estimates*

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Note C. Special Item - Dissolution of Graton Sanitation Zone**

Effective July 1, 2004, the Graton Sanitation Zone was reorganized. The existing Zone was dissolved and its assets, liabilities, facilities and operations were transferred to the Graton Community Services District (GCSD).

The following schedule illustrates the financial reporting effect of the dissolution of the Graton Sanitation Zone:

**Non-cash distribution***Assets transferred to GCSD:*

Capital assets	\$ (2,569,268)
Other current and non-current assets	(25,950)

*Liabilities assumed by GCSD:*

Accounts payable and accrued expenses	29,919
General obligation bonds	178,000
Long-term debts payable	765,740

Total non-cash distribution	(1,621,559)
-----------------------------	-------------

<b>Cash distribution</b>	<b>(1,198,271)</b>
--------------------------	--------------------

Total residual transfer	\$ (2,819,830)
-------------------------	----------------

**Note D. Stewardship, Compliance and Accountability***Budget and Budgetary Accounting*

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between the major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the county Administrator and/or Board of Directors. Revisions that change total appropriations must be approved by the Board of Directors. Annual appropriations that have not been encumbered lapse at year-end.

**Note E. Cash and Investments***Investment Guidelines*

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note E. Cash and Investments (continued)***Balance Sheet*

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

## Statement of net assets:

Cash and investments	\$ 151,263,438
Cash and investments restricted for revenue bond funds	8,777,230
Cash and investments held by trustee	1,663,048
Cash and investments restricted for notes payable	529,602
Fiduciary funds:	
Cash and investments	27,524

Total cash and investments	\$ 162,260,842
----------------------------	----------------

Cash and investments as of June 30, 2005 consist of the following:

## Investment in County Treasurer's Pooled cash

Unrestricted	\$ 75,930,373
Restricted for revenue bonds	8,777,230
Restricted for notes payable	529,602
Restricted for Agency fund	27,524
Non-pooled cash and investments	
Cash on hand	750
Investments	75,332,315
Cash and investments held by trustee restricted for revenue bonds	1,663,048

Total cash and investments	\$ 162,260,842
----------------------------	----------------

Investment in County Treasurer's Pooled Cash

At June 30, 2005, the Water Agency's investments consisted of \$85,264,729 in the Treasury Pool managed by the County Treasurer which has a weighted average maturity of approximately less than two years. The credit rating and other information regarding the Treasury pool for the fiscal year 2004-05 are disclosed in the County of Sonoma's 2004-2005 Comprehensive Annual Financial Report.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note E. Cash and Investments (continued)***Balance Sheet (continued)*Investment in County Treasurer's Pooled Cash (continued)

The net increase in the fair value of the Water Agency's investments in Treasury Pool during fiscal year 2004-05 was \$38,471. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at year-end amounted to \$207,910. The realized gain and loss from securities matured during the current fiscal year are recognized through the net change in the fair value of the investments held in the Treasury Pool.

The net increase (decrease) in fair value of investments by fund, and included in revenue – investment earnings, were as follows:

General Fund	\$ (1,355)
Special Revenue Funds - Flood Control and Warm Springs Dam	12,397
Debt Service Fund	3,426
Enterprise Funds - Water Transmission, Water Supply and Sanitation	20,040
Internal Service Funds	3,963
	<u>\$ 38,471</u>

Non-pooled cash and investments

Included in the non-pooled cash and investments balance are \$750 cash on-hand, \$1,663,048 investments held by trustee, and \$75,332,315 investments in U.S. Government securities which are to be used specifically to fund the repayment of the Water Agency's \$116,757,898 contract payable (see Note L).

The net increase in the fair value of the Water Agency's investments in U.S. Government securities during fiscal year 2004-05 was \$8,060,916. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end amounted to \$61,775,625. Realized gain on investments that matured during fiscal year 2004-2005 amounted to \$633,348.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note E. Cash and Investments (continued)***Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages their exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations. The majority of the Agency's cash and investments is held by the Treasury Pool, which has a weighted maturity of less than two years. The information about the sensitivity of the fair values of the Water Agency's non-pooled investments to market interest rate fluctuations is provided by the following table showing the distribution of the Water Agency's investments by maturity:

Investment Type	Amount	Remaining Maturity			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Government securities	\$ 75,332,315	\$ 1,195,404	\$ 5,872,522	\$ 29,858,456	\$ 38,405,933
Investment contracts	988,088	-	-	-	988,088
Money market funds	674,960	674,960	-	-	-
<b>Total</b>	<b>\$ 76,995,363</b>	<b>\$ 1,870,364</b>	<b>\$ 5,872,522</b>	<b>\$ 29,858,456</b>	<b>\$ 39,394,021</b>

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that is in the possession of another party.

The Water Agency's investments at June 30, 2005 were categorized to give an indication of the level of custodial credit risk assumed by the Water Agency. Category 1 includes investments that are insured or registered, or for which the securities are held by the Water Agency or its agent in the Water Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Water Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the Water Agency's name.



## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note E. Cash and Investments (continued)***Custodial Credit Risk (continued)*

Investments in pools managed by other governments or in mutual funds are not required to be categorized. Investments held during the year did not vary from those held at year end in type or risk; therefore, the Water Agency's investment in County Treasurer's pooled cash of \$85,264,729 is not categorized.

Cash and investments, including restricted assets, were classified by risk category as follows at June 30, 2005:

	Category 1	Category 2	Not Required to be Categorized	Fair Value
Petty cash	\$ -	\$ -	\$ 750	\$ 750
U.S. Government securities	75,332,315	-	-	75,332,315
Cash and investments held by trustee	-	-	1,663,048	1,663,048
	\$75,332,315	\$ -	\$ 1,663,798	\$76,996,113

*Concentration of Credit Risk*

The investment policy of the Water Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Other than the Water Agency's investments in U.S. Government securities, there were no non-pooled investments in any one issuer that represent 5% or more of total Water Agency's investments.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Districts follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating at year end		
				AAA	Aa	Not Rated
U.S. Government securities	\$75,332,315	N/A	\$75,332,315	\$ -	\$ -	\$ -
Investment contracts	988,088	A	-	988,088	-	-
Money market funds	674,960	A	-	-	-	674,960
Total	\$76,995,363		\$75,332,315	\$ 988,088	\$ -	\$ 674,960

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note F. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance July 1, 2004	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2005
<i>Governmental activities</i>					
Capital assets, not being depreciated:					
Intangible assets -					
water storage					
rights \$	102,371,000	\$ -	\$ -	\$ -	\$ 102,371,000
Land	1,537,528	286,482	-	-	1,824,010
Construction in progress	3,883,366	2,565,902	-	(2,371,808)	4,077,460
Total capital assets, not being depreciated	107,791,894	2,852,384	-	(2,371,808)	108,272,470
Capital assets, being depreciated:					
Infrastructure	59,590,653	-	-	2,371,808	61,962,461
Buildings and improvements	3,419,740	-	-	-	3,419,740
Equipment	1,052,655	110,313	(281,086)	-	881,882
Total capital assets being depreciated	64,063,048	110,313	(281,086)	2,371,808	66,264,083
Less accumulated depreciation for:					
Infrastructure	(13,125,977)	(1,450,057)	-	-	(14,576,034)
Buildings and improvements	(1,042,030)	(86,066)	-	-	(1,128,096)
Equipment	(725,981)	(86,429)	281,086	-	(531,324)
Total accumulated depreciation	(14,893,988)	(1,622,552)	281,086	-	(16,235,454)
Total capital assets, being depreciated, net	49,169,060	(1,512,239)	-	2,371,808	50,028,629
Governmental activities capital assets, net \$	156,960,954	\$ 1,340,145	\$ -	\$ -	\$ 158,301,099

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

## Note F. Capital Assets (continued)

	Beginning Balance July 1, 2004	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2005
<i>Business-type activities</i>					
Capital assets, not being depreciated:					
Land	\$ 10,072,404	\$ 502	\$ -	\$ (417,205)	\$ 9,655,701
Construction in progress	60,440,349	13,833,389	-	(28,844,788)	45,428,950
Total capital assets, not being depreciated	70,512,753	13,833,891	-	(29,261,993)	55,084,651
Capital assets, being depreciated:					
Buildings and improvements	145,750,887	-	-	25,183,453	170,934,340
Equipment	7,174,300	650,692	(126,770)	(12,650)	7,685,572
Total capital assets, being depreciated	152,925,187	650,692	(126,770)	25,170,803	178,619,912
Less accumulated depreciation for:					
Buildings and improvements	(50,041,970)	(3,827,224)	-	1,509,272	(52,359,922)
Equipment	(4,766,296)	(730,963)	126,770	12,650	(5,357,839)
Total accumulated depreciation	(54,808,266)	(4,558,187)	126,770	1,521,922	(57,717,761)
Total capital assets, being depreciated, net	98,116,921	(3,907,495)	-	26,692,725	120,902,151
Business-type activities capital assets, net	\$ 168,629,674	\$ 9,926,396	\$ -	\$ (2,569,268)	\$ 175,986,802

The total amount of interest capitalized into capital assets of business-type activities during the years ended June 30, 2005 amounted to \$977,882.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note F. Capital Assets** (continued)*Business-type activities* (continued)

Depreciation expense was charged to functions within the governmental and business-type activities as follows:

*Governmental activities*

General government	\$ 88,470
Spring Lake Park	84,025
Flood Control Zones, including depreciation of infrastructure assets	1,450,057
<b>Total depreciation expense - governmental activities</b>	<b>\$ 1,622,552</b>
Water Transmission	\$ 2,472,915
Water Supply	129,466
Internal Service	921,072
Sanitation	1,034,734
<b>Total depreciation expense - business-type activities</b>	<b>\$ 4,558,187</b>

*Warm Springs Dam Project*

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been capitalized as an inexhaustible intangible asset.

In March 1992, the cost of the project to the Water Agency was established at \$102,371,000. The estimated cost of the Water Agency's portion of the project is 30.2% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long term contract payable within the governmental activities (Note L). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

The project became operational for water supply on November 1, 1994. The Water Agency does not own any part of the tangible dam facilities. The payments under the contract only entitle the Water Agency to permanent water storage rights.

**Note G. Employees' Retirement Plan***Plan Description*

The Water Agency contributes to Sonoma County's single-employer public employee retirement plan (the "Plan") that is administered by the Sonoma County Employees' Retirement Association (the "Retirement Association"). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.

The financial statements for the County of Sonoma (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2004, is on file at the County Auditors' Office.

*Funding Status*

Plan members were required to contribute 7% - 14%, depending upon their age at their date of entry, of their annual covered salary at June 30, 2005 and 2004. The Plan is required to contribute at an actuarially determined rate which was 21.86% and 18.68% of annual covered payroll at June 30, 2005 and 2004, respectively. The Water Agency's contributions to the Plan during the years ended 2004 and 2005 were \$2,016,677 and \$2,024,098 respectively, equal to the required contribution each year.

The Water Agency's total payroll for covered employees for the plan years ended December 31, 2004 and 2003 was \$13,972,162 and \$13,843,055, respectively, which represents approximately 5.52% and 5.32%, respectively, of the Retirement Association's payroll for covered employees.

**Note H. Post Employment Benefits**

In addition to the pension benefits described in Note G, the Water Agency provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The Water Agency pays approximately 85% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The Water Agency reimburses a fixed amount of \$66.60 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The cost of post-retirement health care benefits is recognized as an expenditure as the Water Agency reimburses the County for premiums paid. The financial statement for the County of Sonoma (the primary government) contains the financial information for the post-employment benefits, which is not presented here because the Water Agency portion cannot be separated from the whole.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note I. Deferred Compensation Plan**

The Water Agency participates in the County of Sonoma deferred compensation plan (the "Plan") which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore are not recorded as assets of the County. Each employee directs the investment of the assets in his or her account.

**Note J. Interfund Accounts***Interfund Receivables/Payables*

At June 30, 2005, interfund balances between the Water Agency, the Sonoma County Sanitation Districts, the Forestville Water District and the County of Sonoma are as follows:

*Government Activities*

Due to/from other related governments

Receivable Fund	Payable Fund	Amount
County of Sonoma	Sonoma County Water Agency - General Fund	\$ (807,100)
Sonoma County Water Agency - General Fund	Occidental Sanitation District	250,000
Sonoma County Water Agency - General Fund	Forestville Water District	487,723
Less allowance		(106,805)
Total		\$ (176,182)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other related governments" (i.e., the current portion of interfund loans) or "advances to/(from) other related governments" (i.e., the non-current portion of interfund loans).

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note J. Interfund Accounts (continued)***Government Activities (continued)*

During fiscal year ended June 30, 2004, the Water Agency advanced \$563,000 to the Forestville Sanitation District. The debt was completely forgiven by the Water Agency's Board of Directors' resolution on June 15, 2004. Agency also loaned the Forestville Sanitation District \$807,100, the repayment of which was contingent upon the sale of two parcels of land owned by Forestville Sanitation District.

During fiscal year 2004-05, the first parcel of land was sold for \$32,895 and the proceeds were used to reduce the debt amount to \$774,205. The ownership of the second parcel of land was also transferred to the Water Agency during fiscal year 2004-05. The sale of this parcel of land is still pending as of June 30, 2005, but proceeds from the sale are estimated at \$677,400; therefore, the Water Agency recorded an allowance of \$106,805 to reflect the estimated collectible amount of \$667,400 in the Balance sheet and \$380,918 (adjusted for \$286,486 book value of the land received) in the Statement of Net Assets.

*Transfers*

A summary of transfer activity is as follows:

Transfer from	Transfer to	Amount	Purpose
General Fund	Water Supply Fund	\$ 505,532	Provide funding to cover portion of Recycled Water Projects
General Fund	Internal Service	563,983	Provide funding to cover additional moving expenses
General Fund	Sanitation Zone	3,812	Provide funding to cover operating expenses
Warm Springs Dam Fund	Debt Service Fund	1,000,000	Transfer funds for scheduled principal and interest payment
		\$ 2,073,327	

**Note K. Leases and Agreements***Operating Lease*

The Agency had a lease agreement for its office facilities on Capricorn Way, Santa Rosa, California that expired in January 2005. Operating costs and property taxes on the leased premises are included in the rental payments. Rental expense for the fiscal year 2004-05 amounted to \$228,576.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note L. Long-Term Obligations**

Debt at June 30, 2005, consists of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 462,000
Notes payable	-	10,269,727
Water revenue bonds payable	-	15,225,000
Water and Wastewater revenue bonds payable	-	6,000,000
Advance from other governments	-	11,401,362
Long-term contracts payable	116,757,898	-
Compensated absences	2,135,048	-
	<u>\$ 118,892,946</u>	<u>\$43,358,089</u>

*Business-type Activities*

## General Obligation Bonds

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized &amp; Issued</u>	<u>Outstanding June 30, 2005</u>
<u>Sanitation Zones</u>				
1976 Graton	2016	5%	\$ 350,000	\$ -
1977 Penngrove	2017	5%	300,000	163,000
1980 Geyersville	2020	5%	500,000	299,000
<b>Total long-term obligation</b>				<b>\$ 462,000</b>

Sanitation General Obligation Bonds are repaid from tax revenue. Under a reorganization effective July 1, 2004, the Graton Sanitation Zone was dissolved and the 1976 general obligation bonds for the Graton Sanitation Zone was transferred to the Graton Community Services District. (See Note C)

## Notes Payable

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized &amp; Issued</u>	<u>Outstanding June 30, 2005</u>
Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995	2016	6.5%	\$ 1,031,364	\$ -
Note Payable – LaSalle Bank	2016	4.65%	8,800,000	8,269,727
Note Payable – Banc of America	2020	7.08%	2,000,000	2,000,000
				<u>\$ 10,269,727</u>



## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note L. Long-Term Obligations (continued)***Business-type Activities (continued)*

Under a reorganization effective July 1, 2004, the Graton Sanitation Zone was dissolved. The note payable between the Water Agency and the Sonoma County Water and Wastewater Financing Authority signed on December 1, 1995 for the Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995 was transferred to the Graton Community Services District on July 1, 2004. (See Note C)

On July 1, 2003, the Agency purchased an office facility on Aviation Boulevard, Santa Rosa, California and financed this purchase with a note payable with the LaSalle Bank. The Agency also signed a note payable on June 23, 2005 with Banc of America Leasing and Capital, LLC for facilities improvements through April 1, 2020.

## Water Revenue Bonds Payable

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2005</u>
Water Revenue Bonds, 2003 Series A	2032	2.00 - 5.00%	\$ 15,680,000	\$15,225,000
Less deferred amount for unamortized discount				(27,203)
<b>Total bonds payable, net of discount</b>				<b>\$15,197,797</b>

The 2003 Series A Bonds are special obligations of the Water Agency, payable solely from Net Revenues of the Water Agency's Water Transmission System, and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of 2003 Series A Bonds or interest thereon. The 2003 Series A Bonds are not secured by a legal or equitable pledge of, or charge, or lien, or encumbrance upon, any of the property of the Water Agency or any of its income or receipts, except the Net Revenues of the Water Transmission System and amounts on deposit. These bond proceeds will be used to construct and equip certain facilities and improvements known as the Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs. The facilities constructed with 2003 Series A Bond proceeds are part of the Water Supply and Transmission System Project.

## Water and Wastewater Revenue Bonds Payable

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2005</u>
California Statewide Communities Development Authority (CSCDA)				
2000B Revenue Bonds	2026	4.0 - 5.65%	\$ 6,570,000	\$ 6,000,000
Less deferred amount for unamortized discount				(35,957)
<b>Total bonds payable, net of discount</b>				<b>\$ 5,964,043</b>

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note L. Long-Term Obligations (continued)***Business-type Activities (continued)*

The terms covering the CSCDA 2000B Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the revenues and such other money for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

*Advances from Other Governments*

The Water Agency is in process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources is loaning \$15,858,989 to assist in the financing of this project. As of June 30, 2005, the Water Agency had received loan funds in the amount of \$11,401,362. Repayment of this loan will commence upon completion of the project.

*Governmental Activities*

Long-Term Contracts Payable	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2005</u>
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$116,757,898

The terms of the agreement with the Department of the Army Corps of Engineers stipulates that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal. Payment made during fiscal year 2004-05 was lower than the total interest accrued on the balance of this long-term contract payable. At June 30, 2005, the principal balance increased by \$1,711,166, which is the amount of accrued interest that exceeded the amount paid in 2004-05. This addition does not affect the operating funds of the Water Agency. As of June 30, 2005, total unpaid accrued interest that has been applied to principal per the terms of the agreement amounted to \$19,465,716.

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments will include principal and interest at a rate of 3.225%. The payments of principal and interest are currently funded by property tax revenues of the Water Agency. The amount of the payments began at \$930,562 and will increase to \$6,285,571 at the beginning of fiscal year 2006-07 until 2034.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note L. Long-Term Obligations (continued)***Compensated Absences*

At June 30, 2005, vested vacation and an accrual for vested sick leave for Water Agency employees amounted to \$2,135,048. There were no compensated absences which are considered due or matured. The balance of this obligation is recorded as a noncurrent liability. Compensated absences are generally liquidated by the General Fund.

*Changes in Long-Term Obligations*

A summary of changes in long-term obligations is as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
<u>Governmental activities</u>					
Long-term contracts payable	\$ 116,263,594	\$ 1,711,166	\$(1,216,862)	\$ 116,757,898	\$ 1,256,106
Compensated absences	2,011,625	123,423	-	2,135,048	-
Total governmental activities	118,275,219	1,834,589	(1,216,862)	118,892,946	1,256,106
<u>Business-type activities</u>					
General Obligation Bonds	662,000	-	(200,000)	462,000	23,000
Long-term Notes Payable - Revenue Bonds,					
Series 1995	765,740	-	(765,740)	-	-
LaSalle Bank	8,627,289	-	(357,562)	8,269,727	374,382
Bank of America					
Leasing	-	2,000,000	-	2,000,000	75,107
Water Revenue Bonds					
Series 2003A	15,535,000	-	(310,000)	15,225,000	315,000
Water and Wastewater Revenue Bonds					
Series 2000B	6,150,000	-	(150,000)	6,000,000	160,000
Advance from Other Governments	8,756,524	2,644,838	-	11,401,362	-
Total business-type activities	40,496,553	4,644,838	(1,783,302)	43,358,089	947,489
Total	\$ 158,771,772	\$ 6,479,427	\$(3,000,164)	\$ 162,251,035	\$ 2,203,595

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note L. Long-Term Obligations (continued)***Annual Requirements*

The annual principal and interest requirements on the long-term debt outstanding at June 30, 2005 (excluding compensated absences), are as follows at June 30 of each year listed:

*General Obligation Bonds*

Year ending June 30,	Principal	Interest	Total
2006	\$ 23,000	\$ 22,875	\$ 45,875
2007	25,000	21,700	46,700
2008	25,000	20,450	45,450
2009	27,000	19,175	46,175
2010	28,000	17,825	45,825
2011 - 2015	148,000	66,325	214,325
2016 - 2020	186,000	22,825	208,825
	\$ 462,000	\$ 191,175	\$ 653,175

*Notes Payable*

Year ending June 30,	Principal	Interest	Total
2006	\$ 449,489	\$ 449,762	\$ 899,251
2007	493,026	448,885	941,911
2008	516,104	425,807	941,911
2009	540,263	401,647	941,910
2010	565,553	376,358	941,911
2011 - 2015	3,250,548	1,459,009	4,709,557
2016 - 2020	4,454,744	268,800	4,723,544
	\$ 10,269,727	\$ 3,830,268	\$ 14,099,995

*Water Revenue Bonds*

Year ending June 30,	Principal	Interest	Total
2006	\$ 315,000	\$ 668,609	\$ 983,609
2007	320,000	662,099	982,099
2008	325,000	654,676	979,676
2009	335,000	645,589	980,589
2010	345,000	635,216	980,216
2011 - 2015	1,925,000	2,970,831	4,895,831
2016 - 2020	2,350,000	2,530,506	4,880,506
2021 - 2025	2,935,000	1,928,159	4,863,159
2026 - 2030	3,690,000	1,141,675	4,831,675
2031 - 2033	2,685,000	205,875	2,890,875
	\$ 15,225,000	\$ 12,043,235	\$ 27,268,235

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note L. Long-Term Obligations (continued)***Water & Wastewater Revenue Bonds*

Year ending June 30,	Principal	Interest	Total
2006	\$ 160,000	\$ 317,708	\$ 477,708
2007	165,000	310,907	475,907
2008	170,000	303,813	473,813
2009	180,000	296,332	476,332
2010	185,000	288,323	473,323
2011 - 2015	1,075,000	1,303,537	2,378,537
2016 - 2020	1,380,000	998,958	2,378,958
2021 - 2025	1,810,000	565,282	2,375,282
2026 - 2030	875,000	74,863	949,863
	\$ 6,000,000	\$ 4,459,723	\$ 10,459,723

*Long-Term Contracts Payable - 1986 Federal Contract*

Year ending June 30,	Principal	Interest	Total
2006	\$ 1,256,106	\$ 1,999,059	\$ 3,255,165
2007	2,503,704	3,781,868	6,285,572
2008	2,584,448	3,701,123	6,285,571
2009	2,667,797	3,617,775	6,285,572
2010	2,753,833	3,531,739	6,285,572
2011 - 2015	15,160,018	16,267,839	31,427,857
2016 - 2020	17,767,412	13,660,445	31,427,857
2021 - 2025	20,823,256	10,604,602	31,427,858
2026 - 2030	24,404,679	7,023,179	31,427,858
2031 - 2035	28,603,074	2,825,782	31,428,856
Total debt	118,524,327	67,013,411	185,537,738
Future accrued interest to be applied to principal	(1,766,429)	1,766,429	-
	\$116,757,898	\$ 68,779,840	\$185,537,738

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note M. Deferred Revenue**

Revenue under a supplemental water supply agreement with Marin Municipal Water District is deferred and recognized over the term of the agreement on a straight-line basis (nine years plus an additional forty years at the option of Marin Municipal Water District). At June 30, 2005, deferred revenue totaled \$6,197,150, of which the amount recognizable within one year is included under "Current liabilities" in the accompanying Statement of Net Assets. The annual amount that will be recognized as revenue over the term of the agreement is \$129,107.

**Note N. Related Party Transactions**

A summary of transfers to related governments is as follows:

Receipt from	Payment to	Amount	Purpose
General Fund Sanitation	Occidental Sanitation District	\$ 77,812	Provide funding to allow District to meet operating expenses
		\$ 77,812	

**Note O. Commitments and Contingencies***Construction*

The Water Agency has active construction projects as of June 30, 2005. The projects include expansion and/or improvements of several water storage and wastewater treatment facilities. At June 30, 2005, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Common facilities	\$ 41,817,825	\$ 3,053,969
Water supply facilities	1,165,098	-
Water storage facilities	12,270,959	-
Pipeline facilities	1,240,475	2,451,493
Sanitation facilities	880,807	218,919
Total	\$ 57,375,164	\$ 5,724,381

The balances spent-to-date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for water storage and related facilities are being financed by revenue bonds and a construction loan provided by State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note O. Commitments and Contingencies (continued)***Risk Management*

The Water Agency is covered by the County of Sonoma's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$5,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the fiscal year 2004-05, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$87,283. Settlements have not exceeded coverages for each of the past three fiscal years.

*Economic Dependence*

Four major customers purchased water from the Water Agency during the year ended June 30, 2005. The water sales to, and accounts receivable from, those customers are as follows:

Sales		% of total water sales
Santa Rosa	\$ 9,125,712	34.4%
Petaluma	4,215,850	15.9%
Marin Municipal	3,932,302	14.8%
North Marin County	3,701,562	13.9%
	<b>\$ 20,975,426</b>	<b>79.0%</b>

**Note O. Commitments and Contingencies (continued)**



**Note O. Commitments and Contingencies (continued)***Contingencies (continued)*

The minimum cost of liabilities related to these claims is estimated by management at \$1,200,000 of which, \$500,000 was accrued in the Flood Zone special revenue fund, and \$700,000 was accrued in the Water Transmission enterprise fund.

*Other Regulatory Matters*

Proceedings before the Federal Energy Regulatory Commission ("FERC") could result in reductions in the amount of water diverted from the Eel River into the Russian River, thus reducing one of the Water Agency's sources of supply. Legal counsel, representing the Water Agency at these proceedings, as well as management cannot estimate the likelihood of reduced flows or the effect such reduction would have on the Water Agency's water supplies and water-sale revenues.

In June 2005, the North Coast Regional Water Quality Control Board ("NCRWQCB") issued an Administrative Civil Liability to the Water Agency with a mandatory penalty for violations of effluent limitations that occurred during periods of discharge to receiving waters from January 2000 through August 2004. The mandatory penalty has been waived as the Water Agency has agreed to follow a five-year compliance project required by the NCRWQCB.

The Sonoma County Water Agency ("SCWA") is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the SCWA, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The SCWA is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

The Endangered Species Act also affects the manner and the extent to which the SCWA can maintain flood control channels. SCWA staff and its contractors cannot disrupt environmentally sensitive areas to perform flood control work to the levels that were appropriate in previous years. This development increases the SCWA's degree of exposure to individual property owners and possible litigation in the event of wet weather and possibility of flooding.

**Note P. Future Governmental Accounting Standards**

The Governmental Accounting Standard Board ("GASB") has released the following new standards:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* issued in November 2003. This Statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting for insurance recoveries. GASB No. 42 is effective for financial statements for years beginning after December 15, 2004.

Statement No. 43, *Financial Reporting for Postemployment Benefit (OPEB) Plans Other than Pension Plans* issued in April 2004. This Statement establishes uniform financial reporting standards for OPEB plans focusing on reporting current financial information about plan net assets held in trust for OPEB and financial activities related to the administration of the trust. GASB No. 43 is effective for financial statements for years beginning after December 15, 2006.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other than Pension* issued in June 2004. This Statement establishes standards for the measurement, recognition, and display of Postemployment Benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB No. 45 is effective for financial statements for years beginning after December 15, 2007.

Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34* in December 2004. This Statement requires limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2005.

Statement No. 47, *Accounting for Termination Benefits* in June 2005. This Statement established accounting standards for termination benefits, requiring employers to disclose a description of the termination benefit arrangement, cost of termination benefits and significant methods and assumptions used to determine termination benefit liabilities. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement No. 46. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.

The impact on the financial statements of the Water Agency of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

**Note Q. Subsequent Event**

On September 7, 2005, the Water Agency, through the California Statewide Communities Development Authority, issued Water and Wastewater Revenue Bonds (series 2005C) for the purpose of refinancing the outstanding 2000B Water and Wastewater Revenue Bonds. Total amount and terms are as follows:

	Maturity Date	Interest Rates	Authorized and Issued
California Statewide Communities Development Authority (CSCDA) 2005C Revenue Bonds	2027	2.70% - 5.00%	\$6,220,000

Annual debt service requirements to maturity for the 2005C series Revenue Bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ -	\$ 145,926	\$ 145,926
2007	190,000	255,046	445,046
2008	210,000	249,689	459,689
2009	215,000	243,792	458,792
2010	220,000	237,482	457,482
2011 - 2015	1,225,000	1,071,688	2,296,688
2016 - 2020	1,465,000	823,020	2,288,020
2021 - 2025	1,830,000	439,841	2,269,841
2026 - 2027	865,000	39,702	904,702
	\$ 6,220,000	\$ 3,506,186	\$ 9,726,186

**Required Supplementary Information**

***Budgetary Comparison***

**Sonoma County Water Agency**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund - Budgetary Basis**

**Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue</b>				
Property taxes	\$ 3,229,000	\$ 3,483,475	\$ 4,040,636	\$ 557,161
Fines, forfeitures and penalties	1,200	1,200	-	(1,200)
Investment earnings	110,600	110,600	101,734	(8,866)
Intergovernmental	86,000	86,000	153,409	67,409
Charges for services	548,000	548,000	644,341	96,341
Miscellaneous	536,500	536,500	264,913	(271,587)
Total revenue	4,511,300	4,765,775	5,205,033	439,258
<b>Expenditures</b>				
Current				
Salaries and employee benefits	21,273,528	21,273,528	20,383,501	890,027
Services and supplies	7,899,004	9,352,004	9,053,845	298,159
Costs applied	(25,064,856)	(25,064,856)	(25,606,603)	541,747
Capital outlay	241,709	163,709	55,039	108,670
Contingencies	253,000	-	-	-
Total expenditures	4,602,385	5,724,385	3,885,782	1,838,603
<b>Excess of revenue over expenditures</b>	(91,085)	(958,610)	1,319,251	2,277,861
<b>Other financing uses</b>				
Transfers to related governments	-	(16,000)	(77,812)	(61,812)
Transfers in (out)	(1,041,000)	(991,000)	(1,073,327)	(82,327)
Total other financing uses	(1,041,000)	(1,007,000)	(1,151,139)	(144,139)
<b>Net changes in fund balances</b>	\$ (1,132,085)	\$ (1,965,610)	168,112	\$ 2,133,722
<b>Fund balances at beginning of year</b>			2,999,218	
<b>Adjustment from budgetary basis to GAAP</b>				
Timing difference: Encumbrances			523,821	
<b>Fund balances at end of year</b>			\$ 3,691,151	

**Sonoma County Water Agency**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - Special Revenue Fund - Flood Control Zones - Budgetary Basis**

**Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue</b>				
Property taxes	\$ 7,274,500	\$ 3,993,057	\$ 4,592,174	\$ 599,117
Investment earnings	204,750	20,750	559,157	538,407
Intergovernmental	81,600	81,600	113,387	31,787
Total revenue	7,560,850	4,095,407	5,264,718	1,169,311
<b>Expenditures</b>				
Current				
Services and supplies	19,753,833	20,017,833	3,550,391	16,467,442
Capital outlay	-	-	2,486,103	(2,486,103)
Total expenditures	19,753,833	20,017,833	6,036,494	13,981,339
<b>Excess (deficiency) of revenue over expenditures</b>	(12,192,983)	(15,922,426)	(771,776)	15,150,650
<b>Other financing uses</b>				
Transfers in (out)	-	-	-	-
Total other financing uses	-	-	-	-
<b>Net changes in fund balances</b>	<b>\$(12,192,983)</b>	<b>\$(15,922,426)</b>	<b>(771,776)</b>	<b>\$ 15,150,650</b>
<b>Fund balances at beginning of year</b>			23,421,395	
<b>Adjustment from budgetary basis to GAAP</b>				
Timing difference: Encumbrances			(780,044)	
<b>Fund balances at end of year</b>			<b>\$ 21,869,575</b>	

**Sonoma County Water Agency**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - Special Revenue Fund - Warm Springs Dam - Budgetary Basis**

**Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue</b>				
Property taxes	\$ 3,245,000	\$ 3,245,000	\$ 3,868,438	\$ 623,438
Investment earnings	100,000	100,000	183,834	83,834
Intergovernmental	44,000	44,000	45,708	1,708
Total revenue	3,389,000	3,389,000	4,097,980	708,980
<b>Expenditures</b>				
Current				
Services and supplies	310,000	310,000	92,341	217,659
Debt service				
Interest and fiscal charges	1,086,281	1,086,281	2,087,762	(1,001,481)
Total expenditures	1,396,281	1,396,281	2,180,103	(783,822)
<b>Excess (deficiency) of revenue over expenditures</b>	1,992,719	1,992,719	1,917,877	(74,842)
<b>Other financing uses</b>				
Long term contract proceeds	-	-	1,711,166	1,711,166
Transfers in (out)	(1,000,000)	(1,000,000)	(1,000,000)	-
Total other financing uses	(1,000,000)	(1,000,000)	711,166	1,711,166
<b>Net changes in fund balances</b>	\$ 992,719	\$ 992,719	2,629,043	\$ 1,636,324
<b>Fund balances at beginning of year</b>			6,879,793	
<b>Adjustment from budgetary basis to GAAP</b>				
Timing difference: Encumbrances			-	
<b>Fund balances at end of year</b>			\$ 9,508,836	

## Notes to the Required Supplementary Information

Year Ended June 30, 2005

Budgetary data, as revised, is presented as required supplementary information for the General and Special Revenue Funds, since the operations of these funds are budgeted annually. Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

The results of "actual" operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

Special Revenue Funds				
	General Fund	Flood Control	Warm Springs Dam	Total
Excess of revenue and other sources over (under) expenditures and other uses - budgetary basis	\$ 168,112	\$ (771,776)	\$ 2,629,043	\$ 2,025,379
Expenditure charges against prior year encumbrances	(240,276)	(2,339,211)	-	(2,579,487)
Current year encumbrances	764,097	1,559,167	-	2,323,264
Excess of revenue and other sources over (under) expenditures and other uses- GAAP basis	\$ 691,933	\$ (1,551,820)	\$ 2,629,043	\$ 1,769,156



## **Supplementary Information**

## Combining Balance Sheet - Special Revenue Funds - Flood Control

June 30, 2005

	Flood Control Fund							Total Flood Control Fund
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast		
<b>Assets</b>								
Cash and investments	\$ 13,432,762	\$ 6,566,916	\$ 1,389,031	\$ 1,181,826	\$ 67,019	\$ 1,026,969	\$	23,664,523
<b>Total assets</b>	\$ 13,432,762	\$ 6,566,916	\$ 1,389,031	\$ 1,181,826	\$ 67,019	\$ 1,026,969	\$	23,664,523
<b>Liabilities and fund balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ 1,751,746	\$ 19,152	\$ 19,950	\$ 4,100	\$ -	\$ -	\$	1,794,948
Accrued expenses	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	1,751,746	19,152	19,950	4,100	-	-		1,794,948
<b>Fund balances</b>								
Reserved for encumbrances	1,379,871	89,296	90,000	-	-	-		1,559,167
Unreserved								
Designated for contingencies	500,000	-	-	-	-	-		500,000
Undesignated	9,801,145	6,458,468	1,279,081	1,177,726	67,019	1,026,969		19,810,408
<b>Total fund balances</b>	11,681,016	6,547,764	1,369,081	1,177,726	67,019	1,026,969		21,869,575
<b>Total liabilities and fund balances</b>	\$ 13,432,762	\$ 6,566,916	\$ 1,389,031	\$ 1,181,826	\$ 67,019	\$ 1,026,969	\$	23,664,523

**Sonoma County Water Agency**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Special Revenue Funds - Flood Control**

**Year Ended June 30, 2005**

	Flood Control Fund							Total Flood Control Fund
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast		
<b>Revenue</b>								
Property taxes	\$ 3,786,221	\$ 391,219	\$ 407,570	\$ 4,217	\$ -	\$ 2,947	\$	4,592,174
Investment earnings	312,214	167,783	27,861	26,758	1,508	23,033		559,157
Intergovernmental	55,807	15,783	8,106	1,623	-	1,253		82,572
Miscellaneous	30,815	-	-	-	-	-		30,815
<b>Total revenue</b>	<b>4,185,057</b>	<b>574,785</b>	<b>443,537</b>	<b>32,598</b>	<b>1,508</b>	<b>27,233</b>		<b>5,264,718</b>
<b>Expenditures</b>								
Current								
Services and supplies	3,554,576	517,462	140,846	34,858	595	2,299		4,250,636
Capital outlay	1,998,296	566,348	1,258	-	-	-		2,565,902
Debt service								
Interest and fiscal charges	-	-	-	-	-	-		-
<b>Total expenditures</b>	<b>5,552,872</b>	<b>1,083,810</b>	<b>142,104</b>	<b>34,858</b>	<b>595</b>	<b>2,299</b>		<b>6,816,538</b>
<b>Excess of revenue over expenditures</b>	<b>(1,367,815)</b>	<b>(509,025)</b>	<b>301,433</b>	<b>(2,260)</b>	<b>913</b>	<b>24,934</b>		<b>(1,551,820)</b>
<b>Other financing sources (uses)</b>								
Long-term contract proceeds	-	-	-	-	-	-		-
Transfers out	-	-	-	-	-	-		-
Transfers to related governments	-	-	-	-	-	-		-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>-</b>
<b>Net changes in fund balances</b>	<b>(1,367,815)</b>	<b>(509,025)</b>	<b>301,433</b>	<b>(2,260)</b>	<b>913</b>	<b>24,934</b>		<b>(1,551,820)</b>
<b>Fund balances at beginning of year</b>	<b>13,048,831</b>	<b>7,056,789</b>	<b>1,067,648</b>	<b>1,179,986</b>	<b>66,106</b>	<b>1,002,035</b>		<b>23,421,395</b>
<b>Fund balances at end of year</b>	<b>\$ 11,681,016</b>	<b>\$ 6,547,764</b>	<b>\$ 1,369,081</b>	<b>\$ 1,177,726</b>	<b>\$ 67,019</b>	<b>\$ 1,026,969</b>	<b>\$</b>	<b>21,869,575</b>

**Sonoma County Water Agency  
Combining Statement of Net Assets-  
Enterprise Funds - Sanitation Zones**

**June 30, 2005**

	Sanitation Fund						
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund	
<b>Assets</b>							
Current assets							
Cash and investments	\$ -	\$ 1,296,275	\$ 1,169,394	\$ 807,456	\$ 799,917	\$ 4,073,042	
Receivables	-	26,124	9,740	5,765	1,486,816	1,528,445	
Inventories	-	-	-	-	-	-	
Total current assets	-	1,322,399	1,179,134	813,221	2,286,733	5,601,487	
Noncurrent assets							
Restricted assets							
Cash - revenue bond funds	-	-	19,561	61,551	26,368	107,480	
Cash and investment with trustee	-	-	-	-	788	788	
Deposits with others	-	-	-	-	-	-	
Total restricted assets	-	-	19,561	61,551	27,156	108,268	
Deferred charges	-	-	-	-	155,452	155,452	
Capital assets (net of accumulated depreciation):							
Land	-	-	-	106,213	1,508,745	1,614,958	
Construction in progress	-	588,894	110,182	44,575	140,082	883,733	
Buildings and improvements	-	391,830	816,879	1,071,861	23,085,957	25,366,527	
Equipment	-	5,430	-	-	27,275	32,705	
Total capital assets	-	986,154	927,061	1,222,649	24,762,059	27,897,923	
Total noncurrent assets	-	986,154	946,622	1,284,200	24,944,667	28,161,643	
Total assets	-	2,308,553	2,125,756	2,097,421	27,231,400	33,763,130	

**Sonoma County Water Agency**  
**Combining Statement of Net Assets-**  
**Enterprise Funds - Sanitation Zones** (continued)

**June 30, 2005**

	Sanitation Fund						
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund	
<b>Liabilities</b>							
Current liabilities payable from unrestricted assets							
Accounts payable and accrued expenses	\$ -	\$ 82,628	\$ 373,296	\$ 45,982	\$ 37,997	\$ 539,903	
Deferred revenue	-	18,948	-	-	-	18,948	
Total current liabilities payable from unrestricte	-	101,576	373,296	45,982	37,997	558,851	
Current liabilities payable from restricted assets							
Deposits from others	-	-	-	-	-	-	
Interest payable	-	-	2,717	-	79,427	82,144	
General obligation bonds payable	-	-	9,000	14,000	-	23,000	
Notes payable	-	-	-	-	-	-	
Revenue bonds payable	-	-	-	-	160,000	160,000	
Total current liabilities payable from restricted	-	-	11,717	14,000	239,427	265,144	
Total current liabilities	-	101,576	385,013	59,982	277,424	823,995	
Noncurrent liabilities							
General obligation bonds payable	-	-	154,000	285,000	-	439,000	
Notes payable	-	-	-	-	-	-	
Revenue bonds payable	-	-	-	-	5,804,043	5,804,043	
Advance from other governments	-	-	-	-	-	-	
Total noncurrent liabilities	-	-	154,000	285,000	5,804,043	6,243,043	
Total liabilities	\$ -	\$ 101,576	\$ 539,013	\$ 344,982	\$ 6,081,467	7,067,038	

**Sonoma County Water Agency**  
**Combining Statement of Net Assets-**  
**Enterprise Funds - Sanitation Zones** (continued)

**June 30, 2005**

	Sanitation Fund						
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund	
<b>Net assets</b>							
Invested in capital assets, net of related debt	\$ -	\$ 986,154	\$ 764,061	\$ 923,649	\$ 18,798,016	\$ 21,471,880	
Restricted for debt service	-	-	16,844	61,551	(52,271)	26,124	
Restricted for recycled water/ water conservation	-	-	-	-	-	-	
Unrestricted	-	1,220,823	805,838	767,239	2,404,188	5,198,088	
<b>Total net assets</b>	\$ -	\$ 2,206,977	\$ 1,586,743	\$ 1,752,439	\$ 21,149,933	\$ 26,696,092	

**Sonoma County Water Agency**  
**Combining Statement of Revenues, Expenses and Changes in Net Assets -**  
**Enterprise Funds - Sanitation Zones**

**Year Ended June 30, 2005**

	Sanitation Fund					
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
<b>Operating revenue</b>						
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water services	-	-	-	-	-	-
Power sales	-	-	-	-	-	-
Flat charges	-	341,305	309,315	193,247	1,152,781	1,996,648
Sanitation services	-	3,382	7,739	8,542	97,359	117,022
Miscellaneous	-	-	-	-	74,483	74,483
Total operating revenue	-	344,687	317,054	201,789	1,324,623	2,188,153
<b>Operating expenses</b>						
Services and supplies	-	268,683	332,594	154,483	1,283,452	2,039,212
Depreciation and amortization	-	46,998	38,823	76,982	880,631	1,043,434
Total operating expenses	-	315,681	371,417	231,465	2,164,083	3,082,646
<b>Operating income (loss)</b>	-	29,006	(54,363)	(29,676)	(839,460)	(894,493)
<b>Nonoperating revenue (expenses)</b>						
Taxes and assessments	-	-	15,454	23,203	-	38,657
Investment earnings	-	29,646	24,509	20,317	25,730	100,202
Interest expense	-	21,424	(3,803)	(14,546)	(314,363)	(311,288)
Intergovernmental revenue-capital	-	-	170	287	-	457
Total nonoperating revenue (expenses)	-	51,070	36,330	29,261	(288,633)	(171,972)

**Sonoma County Water Agency**  
**Combining Statement of Revenues, Expenses and Changes in Net Assets -**  
**Enterprise Funds - Sanitation Zones** (continued)

**Year Ended June 30, 2005**

	Sanitation Fund						
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund	
<b>Net income (loss) before contribution and transfers</b>	\$ -	\$ 80,076	\$ (18,033)	\$ (415)	\$ (1,128,093)	\$ (1,066,465)	
Contributions:							
Other	-	68,202	-	-	-	68,202	
Connection fees	-	-	16,783	30,514	1,472,660	1,519,957	
Transfers in	-	3,812	-	-	-	3,812	
Special Item - Dissolution of Graton Sanitation Zone	(2,819,830)	-	-	-	-	(2,819,830)	
<b>Change in net assets</b>	(2,819,830)	152,090	(1,250)	30,099	344,567	(2,294,324)	
<b>Net assets at beginning of year</b>	2,819,830	2,054,887	1,587,993	1,722,340	20,805,366	28,990,416	
<b>Net assets at end of year</b>	\$ -	\$ 2,206,977	\$ 1,586,743	\$ 1,752,439	\$ 21,149,933	\$ 26,696,092	



**Sonoma County Water Agency  
Combining Statement of Cash Flows -  
Enterprise Funds - Sanitation Zones**

**Year Ended June 30, 2005**

	Sanitation Fund					
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
<b>Cash flows from operating activities</b>						
Receipts from customers	- \$	344,811 \$	313,347 \$	204,798 \$	1,292,692 \$	2,155,648
Payments for interfund services used	-	(78,888)	(71,736)	(113,706)	(820,662)	(1,084,992)
Payments to suppliers	-	(191,472)	(8,906)	(39,118)	(472,806)	(712,302)
Net cash provided by (used in) operating activities	-	74,451	232,705	51,974	(776)	358,354
<b>Cash flows from noncapital financing activities</b>						
Taxes and assessments	-	-	15,454	23,203	-	38,657
Intergovernmental non-capital receipts	-	-	-	-	-	-
Net cash provided by noncapital financing activities	-	-	15,454	23,203	-	38,657
<b>Cash flows from capital and related financing activities</b>						
Purchase of capital assets	-	(128,362)	(61,908)	(839)	(52,925)	(244,034)
Principal paid on capital debt	-	-	(9,000)	(13,000)	(150,000)	(172,000)
Interest paid on capital debt	-	-	(8,375)	(14,734)	(320,858)	(343,967)
Proceeds from long-term debt	-	-	-	-	-	-
Intergovernmental capital receipts	-	-	170	287	-	457
Proceeds from connection fees	-	-	18,706	30,514	50,537	99,757
Proceeds from capital contributions - other	-	66,900	-	-	-	66,900
Transfers in	-	3,812	-	-	-	3,812
Special Item-Dissolution of Graton Sanitation Zone	(1,198,271)	-	-	-	-	(1,198,271)
Net cash provided by (used in) capital and related financing activities	(1,198,271)	(57,650)	(60,407)	2,228	(473,246)	(1,787,346)

**Sonoma County Water Agency**  
**Combining Statement of Cash Flows -**  
**Enterprise Funds - Sanitation Zones (continued)**

**Year Ended June 30, 2005**

	Sanitation Fund					
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund
<b>Cash flows from investing activities</b>						
Interest income	-	29,646	24,509	20,317	25,730	100,202
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,198,271)	46,447	212,261	97,722	(448,292)	(1,290,133)
<b>Balances at beginning of year</b>	1,198,271	1,249,828	976,694	771,285	1,275,365	5,471,443
<b>Balances at end of year</b>	\$ -	\$ 1,296,275	\$ 1,188,955	\$ 869,007	\$ 827,073	\$ 4,181,310
<b>Cash and cash equivalent includes the following at June 30, 2005:</b>						
Cash and investments	\$ -	\$ 1,296,275	\$ 1,169,394	\$ 807,456	\$ 799,917	\$ 4,073,042
Restricted cash and investments	-	-	19,561	61,551	27,156	108,268
	\$ -	\$ 1,296,275	\$ 1,188,955	\$ 869,007	\$ 827,073	\$ 4,181,310
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>						
Operating income (loss)	\$ -	\$ 29,006	\$ (54,363)	\$ (29,676)	\$ (839,460)	\$ (894,493)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation and amortization expense	-	46,998	38,823	76,982	880,631	1,043,434
Change in assets and liabilities						
Receivables, net	-	123	(3,705)	3,009	(31,933)	(32,506)
Accounts payable and other payables	-	(1,676)	251,950	1,659	(10,014)	241,919
Inventory	-	-	-	-	-	-
<b>Net cash provided by (used in) operating activities</b>	\$ -	\$ 74,451	\$ 232,705	\$ 51,974	\$ (776)	\$ 358,354

**Sonoma County Water Agency**  
**Combining Statement of Cash Flows -**  
**Enterprise Funds - Sanitation Zones** (continued)

**Year Ended June 30, 2004**

	Sanitation Fund							
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund		
<b>Noncash investing, capital and financing activities:</b>								
Increase (decrease) in pProject costs included in accounts payable	\$ -	\$ 67,902	\$ 559	\$ 43,549	\$ -	\$ 112,010		
Net decrease in fair value of investment in County Treasurer's pooled cash	\$ -	\$ 3,162	\$ 2,900	\$ 2,120	\$ 2,015	\$ 10,197		
Dissolution of Graton Sanitation Zone (see Note C)	\$ (1,621,559)	\$ -	\$ -	\$ -	\$ -	\$ (1,621,559)		

## **Compliance**

**Independent Auditors' Report on Internal Control and  
Compliance and on Other Matters Over Financial Reporting  
Based on Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Directors  
Sonoma County Water Agency  
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Water Agency** as of and for the year ended June 30, 2005, and have issued our report thereon dated September 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Sonoma County Water Agency's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the **Sonoma County Water Agency's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management, Board of Supervisors, County of Sonoma, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Santa Rosa, California  
September 12, 2005

*Local partnership. Global solutions.*

3550 Round Barn Blvd., Suite 100, Santa Rosa, CA 95403  
(707) 542-3343 • Fax (707) 527-5608

Offices in Santa Rosa, Petaluma and Napa [www.pbllp.com](http://www.pbllp.com)

---

Schedule of Findings and Questioned Costs

---

---

Year Ended June 30, 2005

---

**Section I. Summary of Auditors' Results**Basic Financial StatementsType of auditors' report issued: *unqualified*

Internal control over financial reporting:

Material weaknesses identified \_\_\_\_\_ yes   X   noReportable conditions identified not considered  
to be material weaknesses\_\_\_\_\_ yes   X   no

Noncompliance material to financial statements noted

\_\_\_\_\_ yes   X   no**Section II. Financial Statement Findings**

No matters were noted.